





# STOCK EXCHANGE PRACTICES

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## HEARINGS

BEFORE THE

## COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

## S. Res. 84

A RESOLUTION TO THOROUGHLY INVESTIGATE PRACTICES  
OF STOCK EXCHANGES WITH RESPECT TO THE  
BUYING AND SELLING AND THE BORROWING  
AND LENDING OF LISTED SECURITIES,  
THE VALUES OF SUCH SECURITIES  
AND THE EFFECTS OF SUCH  
PRACTICES

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### PART 2

APRIL 23, 26, MAY 19, 20, 21, AND JUNE 3, 1932

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## CONTENTS

---

Testimony of—	Page
Bolles, Norman T., New York (president Indian Motorcycle Co.)-----	593
Bragg, Thomas E., New York-----	406, 465
Breen, George F., Rye, N. Y.-----	549
Content, H., New York-----	596
Cornell, R. J., Jersey City, N. J.-----	606
Gray, William A. (committee counsel), relative to stock of Radio Corporation of America-----	517
Relative to Anaconda Copper-----	756
Hansell, Howard F., jr., New York-----	584
Higgins, Joseph E., Green Haven, N. Y.-----	750
Kenny, Thomas A.-E. W. Clark & Co., correspondence-----	378
Knight, Edward P., accountant, New York-----	385
La Guardia, Hon. F. H., Member of House of Representatives from New York-----	440
Levenson, John J., White Plains, N. Y.-----	601, 618
Lion, David M., New York-----	672
McConnachie, James F., New York (member of the firm of M. J. Meehan & Co.)-----	492
McConnachie, James F. (resumed)-----	517
Mitchell, Charles E., New York (chairman National City Bank)-----	767
O'Brien, Esmonde F., New York-----	502
O'Hanlan, Joseph F., Philadelphia (accountant)-----	757
Raskob, John J., Centerville, Md. (director General Motors Corporation)-----	712
Rules, extracts from (of the New York Stock Exchange)-----	670
Sachs, Walter E., New York City (member of firm of Goldman, Sachs & Co.)-----	566
Smith, Bernard E., New York-----	425
Warner Bros., Pictures (copy of certain publicity)-----	655
Warner, Harry M., Mount Vernon, N. Y. (president of Warner Bros. Pictures (Inc.))-----	622
Weeks, John L., New York (member of the firm of Luke, Banks & Weeks)-----	531



# STOCK EXCHANGE PRACTICES

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SATURDAY, APRIL 23, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10.30 o'clock a. m., pursuant to adjournment on yesterday, in room 301 Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Townsend, Walcott, Couzens, Watson, Fletcher, Glass, and Barkley.

Present also: William A. Gray, Esq., counsel to the committee.

The CHAIRMAN. The committee will come to order. You may proceed, Mr. Gray.

MR. GRAY. Mr. Chairman, we have prepared certain charts showing the range of the market as to certain pivotal stocks over a period of time, and at the same time showing upon these charts the short position from day to day so that a comparison can be made. We are handing these charts to the committee reporter, for the purpose of your record, in order that you may have them and examine them at such time as you wish. I am now offering them in evidence.

The CHAIRMAN. They will be received and appropriately marked by the committee reporter.

(The charts offered by counsel to the committee were identified by being marked as follows:)

Chart as to American Can, Exhibit 39. Chart as to American Telephone & Telegraph Co., Exhibit No. 40. Chart as to J. I. Case Co., Exhibit No. 41. Chart as to Consolidated Gas Co. of New York, Exhibit No. 42. Chart as to E. I. du Pont & de Nemours Co., Exhibit 43. General Electric Co., Exhibit 44. General Motors Corporation, Exhibit 45. New York Central Railroad, Exhibit 46.

MR. GRAY. And, Mr. Chairman and gentlemen of the committee, without any further comment I will, with your permission hand to the committee reporter some correspondence that has passed between the brokerage firm of E. W. Clark & Co. and Thomas A. Kenny and between Thomas A. Kenny and the committee on business conduct of the New York Stock Exchange, so that this correspondence may also be placed in your record. The purpose of offering the correspondence is to show you what in this particular instance was done for the purpose of compelling Mr. Kenny to sign the authorization to E. W. Clark & Co. permitting them to loan his stock, although he objected to signing it.

The CHAIRMAN. If there is no objection, the correspondence will be copied into the record.

(The Thomas A. Kenney-E. W. Clark & Co. correspondence is as follows:)

NEW YORK STOCK EXCHANGE COMMITTEE  
ON BUSINESS CONDUCT.

April 18, 1932.

THOMAS A. KENNEY, ESQ.,  
*Manayunk, Philadelphia, Pa.*

DEAR SIR: With reference to your letter of April 9, 1932, the correspondence with you has turned so specifically to the relations between yourself and your brokers in connection with the separate agreement covering the loaning of stocks which they have requested you to sign that the committee on business conduct feels that further communication with you can be more intelligently carried on if it is given an opportunity to inquire into the facts. Will you not please supply the name of your brokers for this purpose?

Yours very truly,

L. R. HARRISON,  
*Secretary of the committee.*

PHILADELPHIA, PA., April 19, 1932.

MR. L. R. HARRISON,  
*Secretary Committee on Business Conduct,  
New York Exchange, New York City.*

DEAR SIR: With reference to your letter of yesterday, I am gratified to know that your committee will inquire into the facts of the case. I am, therefore, inclosing a brief outline of my side of the controversy, which I trust you will consider in making the inquiry.

Upon receipt of a request for me to sign a loan-authorization form, I notified my brokers, E. W. Clark & Co., Sixteenth and Locust Streets, Philadelphia, Pa., that I preferred not to do so. I fully explained my position to the customer's man with whom I did business, Mr. John A. Murphy. I told him I was entirely willing to sign an agreement whereby I would authorize the loaning of any of my securities to any of the firm's customers, to avoid buy ins, etc. But in the event that any of my securities were loaned through the "loan crowd" or other brokers, I would expect to receive a fair portion of any premiums collected. I further stated that I felt I should obtain some benefit from the lower interest charges on stocks loaned. (My brokers have increased their monthly interest charges very regularly—the rate was increased three-fourths per cent in October, 1931; an extra one-fourth per cent in November, 1931; still another one-fourth per cent in December, 1931, and on April 1 added still another one-half per cent to the rate.)

About the same time I fully explained my feeling to the manager of the board room, Mr. Graham Dougherty, and told him in effect the same thing.

About a week later I received a letter, which I considered the equivalent of a demand to sign such an authorization as written.

Some days later the firm notified me (March 29) as follows: "We are sorry to inform you that we can no longer carry in your account \$5,000 Central Zone Bonds 6's of 1936, as there is no actual bid for the bonds. As of the close of business to-night, your account is undermargined to the extent of \$200, and we would appreciate an immediate response.

Very truly yours,

E. W. CLARK & Co.,  
Per A. P. ZOOK.

The above letter contained a postscript: "Kindly sign and return to us the inclosed loan authorization letter.

I spoke to the margin clerk, Mr. Allen Zook, upon receipt of this letter and told him my figures showed that after the 5,000 bonds in question were eliminated my account was not undermargined. As a matter of fact, the value of my securities held, based on the closing prices that day, were \$670 in excess of my requirements, not taking into consideration \$150 of dividends payable April 1.

Mr. Zook told me they had sent 2,000 shares of National Dairy (I have 200 shares N. P. T. in my account) to the loan crowd and were anxious to get all owners of this stock to sign the forms. I likewise told him just how I felt about signing, and stated I would not sign such a form unless forced to.

My monthly statement was not received by me until Monday, April 4; it clearly showed the interest charge had been erased and apparently changed.

Upon inquiring into the reason for another increase (I was told the first of the previous month to expect a lower interest charge for March), Mr. Sewell Clark, one of the partners, frankly told me that more than 90 per cent of their customers had signed "on the dotted line"—how many were forced to do so I do not know—and that only some 16 or so had refused to do so. He frankly admitted that he had issued instructions to increase the interest charges on the accounts that had refused to sign. Please note this was retroactive.

I gave up and signed (very, very, very reluctantly) the loan-authorization as drawn up by the brokers, with the understanding the extra one-half per cent penalty would be remitted, which was done. A letter received to-day by me from the broker concludes: "We suggest you make arrangements to have your business handled by some one who would do it more to your satisfaction."

Respectfully yours,

---

PHILADELPHIA WASTE MERCHANTS ASSOCIATION,  
*Philadelphia, Pa., April 13, 1932.*

COMMITTEE ON BANKING,  
*United States Senate, Washington, D. C.*

GENTLEMEN: Re investigation of New York Stock Exchange, may I submit the inclosed file to your committee, with the hope that the present investigation of the New York Stock Exchange will include the matter of a proper division of premiums collected.

The recent resolution approved by the exchange, on February 18, 1932, turned out to be merely a "joker." The exchange makes no attempt to correct the corrupt and evil practices now prevailing, with the result that holders of "long" securities are caught in a vicious cycle, from which there is no escape.

The exchange insists upon receiving "authority" to lend customer's stocks, but very cleverly evades making any mention as to whom should receive premiums which are daily collected. The practice is that the brokers keep these.

I feel that any broker who obtains "authority" to lend a client's securities does so as an agent. I can not see where the broker has any legal right to retain the amount he has collected for the use of his client's property.

In view of the fact that brokers always obtain the full market price as a deposit against the loan of any securities, and that no bank or banking institution could think of lending more than, say, 75 per cent, it is obvious that brokers are more than eager to lend securities which they do not own at every opportunity.

If they could be compelled by law to pass on to the rightful owner the benefits received, I think it would go a long way toward correcting the evils complained of.

Trusting your committee will give this matter serious consideration, and may I ask that you return to me the inclosed files at your convenience.

Sincerely yours,

THOMAS A. KENNY,  
*Philadelphia, Pa.*

---

PHILADELPHIA, PA., April 9, 1932.

MR. L. R. HARRISON,  
*Secretary Committee on Business Conduct,  
New York Stock Exchange, New York City.*

DEAR SIR: Thank you for your letter of the 4th instant inclosing the copies of Mr. Whitney's addresses on Short Selling and Short Selling and Liquidation. I listened attentatively on the occasion of the broadcast of both of these addresses and had read them both in the newspapers and the pamphlets sent me by mail, and I enjoyed reading them once more.

May I say to you that I am a firm believer in legitimate short selling and have upheld this practice many, many times in arguments with my friends who take the opposite view. I have read several books on the subject and am convinced the practice is sound.

What I am protesting about is that a purchaser of stocks "long" should have the right to refuse to lend them if he wishes. I am protesting against the vicious manner in which brokers force their customers to sign the so-called loan authorization. I told you in my case, after I had advised my

broker exactly how I felt about the matter. I told them I was perfectly willing to sign a loan authorization provided I would obtain a fair share of whatever premiums were obtained on my stock. I think you will find that much of the feeling against short selling is due to the fact that "honest" brokers do not pass on to the rank and file of their customers the premium received, which certainly do not belong to the broker.

Please bear in mind that the "authority" as drawn up (no doubt by their counsel) makes no mention about the division of the proceeds obtained from such lending. The brokers are intrusted with my securities and are privileged to pledge or borrow on them, but when it comes to loaning them and they collect a premium, that belongs to the owner, less, of course, a reasonable charge for services.

On the matter of lending stocks, Mr. Whitney's remarks are clearly biased. He says when a man buys he borrows part of the money; when stocks are loaned the full value is deposited. If the stocks declined in value, the lender will require additional collateral provided they have declined below the margin requirement. This fact was not mentioned in making his comparison. But when borrowed stocks advance the lender must deposit more money immediately. Both methods are therefore not equally fair. I admire his frankness in admitting that the exchange opposed any restriction upon the lending of stocks. But he would be equally frank and say that it also makes no attempt to correct evil practices arising from this stand.

You state that brokers are making all "proper" attempts to secure such consents. After the customer's man and the margin clerks were unable to meet the perfectly fair conditions I wished included in the loan authorization, then the firm itself stepped in. When I obtained my statement last Monday I noticed the interest charge had been greatly increased. I took this matter up personally with one of the partners, who frankly told me that over 90 per cent had signed on the dotted line and that only 16 or 17 had not done so. He frankly admitted that he had issued instructions to increase the interest charges for the previous month. This was made retroactive. Naturally I then gave up and signed with the understanding they would correct the interest to the regular basis, which was done.

I am wondering if this is a "proper attempt."

I note your committee has not passed on the form of the separate agreements. You did rule that no general form of customer's agreement shall be deemed sufficient. While I am not, of course, a member of the exchange, and frankly admit I have no right or intention of suggesting how to run your affairs, it does seem to me that some one will lay down definite rules to follow. Maybe it will be the present Senate Banking Committee. Who knows?

Very truly yours,

THOMAS A. KENNY,  
*Philadelphia, Pa.*

---

NEW YORK STOCK EXCHANGE,  
COMMITTEE ON BUSINESS CONDUCT,  
*April 4, 1932.*

THOMAS A. KENNY, Esq.,  
*International Trading Co., Philadelphia, Pa.*

DEAR SIR: With reference to your letters of March 28 and 31, 1932, I am directed by the committee on business conduct to say that it has not passed upon the form of the separate agreements obtained by brokers from customers covering the lending of securities, preferring to leave the matter of the wording to the brokers themselves and their counsel.

The matter of the conditions under which a broker will carry an account is one of arrangement between the broker and the customer, as is also the question of the division of premiums paid in connection with the lending of the customer's stocks.

In respect to the various communications received by you from your brokers in regard to this authorization, the committee would like to point out that naturally brokers have made and are making all proper attempts to secure such consents because of the strong desirability from the public interest of a free and open market in which the borrowing of stock is required for any number of reasons, such as delays in receipt in New York on account of out-of-town shipment, location of stock in a safe-deposit box, short selling, etc.

There is some general feeling to the effect that the lending of stock is generally necessitated by the short interest. In this connection, I am inclosing copies of addresses recently delivered by the president of the exchange on the subjects of Short Selling and Short Selling and Liquidation.

I am also returning herewith the form of authorization which you submitted.

Very truly yours,

L. R. HARRISON, *Secretary of the Committee.*

Mr. L. R. HARRISON, PHILADELPHIA, PA., March 31, 1932.  
*Secretary Committee on Business Conduct,*  
*New York Stock Exchange, New York City.*

DEAR SIR: Referring further to my letter of March 28 in which I asked you to kindly return to me the letter I attached to my original letter (dated March 25 and referred to you for reply), will you please see that this is promptly returned to me?

I particularly wish to have my file on the matter complete as the indications are that I may need the letter in question.

Since writing you on the 28th (which letter incidently has not as yet been acknowledged or answered) I have received the third request to sign a loan-authorization letter.

This one (received yesterday) informs me that my broker can no longer carry \$5,000 of my bonds as there is no actual bid on same. They advise me my account is, therefore, undermargined and request the large sum of \$200. There is a P. S. on this letter: "Kindly sign and return to us the inclosed loan-authorization letter."

As a matter of fact, after eliminating the \$5,000 bonds in question there remains excess margin of over \$250<sup>1</sup> as of March 29 (the day the letter was sent me). This was further increased by about an additional \$200 yesterday.

I am watching with interest just how far the broker will go to try and force me to sign something I have no intention of doing, and for that reason wish to have all the papers complete.

Trusting you will give this matter your immediate attention.

Very truly yours,

THOMAS A. KENNY,  
*Philadelphia, Pa.*

PHILADELPHIA, PA., March 28, 1932.

Mr. L. R. HARRISON,  
*Secretary Committee on Business Conduct,*  
*New York Stock Exchange, New York City.*

DEAR SIR: Your letter of March 26 does not answer the question I asked in my letter of the 25th instant.

I quoted the exact wording of the third paragraph of the resolutions of the governing committee of February 18, as follows:

"*Further resolved*, That no form of general customer's agreement, even thought it includes specifically the right to lend securities, shall be deemed sufficient compliance with this resolution, but such right shall be evidences by a separate authorization in writing."

I inclosed the "form" sent me by my broker, and asked if this was in compliance with your ruling. Is it?

Please return the above-mentioned form to me.

I am indeed gratified to know (officially) that the position of the exchange is that if a broker does not desire to carry an account without the authority to loan securities, so that he can appropriate to himself all premiums, etc., which not even the exchange can possibly justify, a client can secure another broker. I did think the exchange was about to try a "noble experiment" but I now find it was but an "idle gesture."

Wasn't it Lincoln who said something about fooling some of the people some of the time, etc.?

Respectfully yours,

THOMAS A. KENNY.

P. S.—When customers are advised at "stated periods" of their "rights" why not save time and add the words "Then get another broker."

<sup>1</sup> Should read \$670 excess (written in pencil).

NEW YORK STOCK EXCHANGE,  
COMMITTEE ON BUSINESS CONDUCT,  
March 26, 1932.

THOMAS A. KENNY, ESQ.,  
*International Trading Co., Philadelphia, Pa.*

DEAR SIR: Your letter of March 25, 1932, has been referred by the secretary of the exchange to the committee on business conduct by whom I am directed to say that the separate authority to lend referred to in the resolution of the governing committee of February 18, 1932, was not intended to be obtained for each specific lending of securities, but to cover the general right to lend in the future, subject to revocation by the client.

Where you are unwilling to sign such a separate authorization, there can be no compulsion upon you that you do so. If your broker does not desire to carry the account otherwise, your obvious course is to secure another broker who is willing to transact your business without such authority.

Yours very truly,

L. R. HARRISON,  
*Secretary of the Committee.*

---

PHILADELPHIA, PA., March 25, 1932.

Mr. ASHBEL GREEN,  
*Secretary Governing Committee,  
New York Stock Exchange, New York City.*

DEAR SIR: Referring to the resolution passed on February, 18, 1932, regarding the loaning of margin customers securities, may I kindly ask if the intent of the second paragraph was to the effect that a broker should obtain separate or specific authority each time said securities are loaned?

The resolution specifically states that no general form of customer's agreement, even though it includes specifically the right to lend securities, shall be deemed sufficient compliance with this resolution, but such right shall be evidenced by a separate authorization in writing.

Is not the inclosed form a general form under the meaning of the third paragraph? Should not my brokers obtain from me written authority to lend a specific block of shares, such authority good only for the shares mentioned?

On March 7, 1932, I received a letter from my broker, "hoping I would be willing to sign" the inclosed most general form. I did not sign it. To-day I receive the equivalent of a demand, which is herewith attached. As brokers can easily force any margin customer to sign, it seems to me, if any such general form is upheld, the governing committee might have saved the time and expense of attempting to enforce the resolution in question.

Does not the inclosed authorization (which to my mind certainly is a general form) attempt to do exactly what the resolution demands not be done?

Thanking you for an early reply,

Respectfully yours,

THOMAS A. KENNY.

---

E. W. CLARK & Co.,  
*Philadelphia, Pa.*

DEAR SIR: You are hereby specifically authorized, from time to time to loan, either separately or with other securities, to yourselves as brokers or to others any securities held on margin for my account. This authorization shall continue until terminated by written notice given to you, which I understand it is my privilege to give at any time.

Very truly yours,

---

MEMORANDUM

The actual market values of the securities held in my account as of March 29 was \$23,150. Margin requirements \$22,478.

Excess margin was \$672 after eliminating Central Zone bonds. (The above does not include \$150 for dividends payable April 1.)

Securities held:



Closing price April 29

200 shares National Dairy Products, at 26¼-----	\$5,300.00
200 shares United Corporation, at 7½-----	1,575.00
5,000 Ice Service Corporation 6½ per cent bonds at 60 (interest \$107.10)-----	3,107.10
5,000 Republic of Estonia 7 per cent bonds, at 36 (interest \$84.33)-----	1,884.33
4,000 Arkansas Power & Light 5's, at 82 (interest \$98.79)-----	3,378.79
4,000 Philadelphia Electric 4½'s bonds, at 97¾ (interest \$74.50)-----	3,984.50
4,000 Southern California-Edison 5's bonds, at 96¾ (interest \$49.40)-----	3,919.40
Total actual market value-----	23,150.00
Margin requirements-----	22,478.00
Excess-----	672.00

PHILADELPHIA, PA., March 29, 1932.

MR. THOMAS A. KENNY, JR.,

*Philadelphia, Pa.*

DEAR SIR: We are sorry to inform you that we can no longer carry in your account as collateral \$5,000 Central Zone building 6's of 1936, as there is no actual bid for the bonds.

As of the close of business to-night, your account is undermargined to the extent of \$200 and we would appreciate an immediate response.

Very truly yours,

E. W. CLARK & Co.,  
By A. P. ZOOK.

P. S. Kindly sign and return to us the inclosed loan authorization letter.

PHILADELPHIA, PA., March 24, 1932.

MR. THOMAS A. KENNY, JR.,

*Philadelphia, Pa.*

DEAR SIR: Some time ago we mailed you authorization to loan securities which was to be signed by you and returned to us. As we have not as yet received this signed authorization we are mailing a duplicate to you which kindly sign and return to us before April 1.

Very truly yours,

E. W. CLARK & Co.  
By JOHN A. MURPHY.

## MEMORANDUM

I notified Mr. John A. Murphy (customer's man, E. W. Clark & Co.) also Mr. Graham Dougherty, manager of board room, that I was perfectly willing to sign a "loan authorization" by which they could loan any of my securities for the purpose of making prompt delivery and to avoid "buy-ins" for their own customers.

I told them that I would be willing to authorize them to loan my securities to brokers provided I would be credited with any premiums received, less a reasonable commission charge.

I explained to them that I believed that the owner of any securities was entitled to any premiums obtained from the loaning of his securities.

Neither could agree to this condition, and I refused to sign the agreement in the form submitted.

T. A. K.

MARCH 8, 1932.

MR. THOMAS A. KENNY, JR.,

*Philadelphia, Pa.*

PHILADELPHIA, PA., March 7, 1932.

DEAR SIR: We inclose herewith copy of resolutions adopted by the governing committee of the New York Stock Exchange at a meeting held on February 18, 1932, relating to the lending of customers' securities purchased on margin.

By your present agreement with us you have authorized us to lend your securities either alone or with other securities. It now becomes necessary that we have a separate authorization relating to the lending of your securities, effective as of April 1, 1932. Until that time the part of your present agreement which relates to the lending of your securities will remain in effect unless terminated by you by written notice to us.

Those who are conversant with the details of the brokerage business will realize that it is very frequently necessary for brokers to borrow securities for their clients in order to make prompt deliveries and also to avoid "buy-ins," which would be costly to our customers. It is, therefore, obvious that, in view of the above ruling of the New York Stock Exchange, the business of our clients will be much facilitated by their cooperation in granting specific permission to lend their collateral securities just as they have done in the past under the present agreement contained in our margin release card.

We hope you will be willing to sign and return the inclosed letter so that we may continue to furnish prompt and efficient service. A stamped, addressed envelope is inclosed for your convenience.

Yours very truly,

E. W. CLARK & Co.

---

NEW YORK STOCK EXCHANGE,

February 18, 1932.

*To the Members of the Exchange:*

At a meeting of the governing committee held on February 18, 1932, the following resolutions were adopted:

"Whereas it has been stated that customers in some instances do not appreciate that the usual form of customer's agreement permit brokers to lend securities purchased on margin, and it has also been stated that some customers are not aware of the fact that they have the right to revoke any authorization to lend securities which they may have previously given to their brokers; it was

"*Resolved*, That members of the exchange shall not, on and after April 1, 1932, lend, either to themselves as brokers or to others, securities held on margin for customers unless they shall have obtained separate authorization in writing permitting the lending of such securities; it was

"*Further resolved*, That no general form of customer's agreement, even though it includes specifically the right to lend securities, shall be deemed sufficient compliance with this resolution, but such right shall be evidenced by a separate authorization in writing; it was

"*Further resolved*, That in the case of the accounts of all new customers opened after the date hereof the requirement of such separate authorization in writing for the lending of securities shall apply; and it was

"*Further resolved*, That the committee on business conduct may, at its discretion, require that members shall at stated periods bring to the attention of all customers their right to revoke any authorization theretofore given for the lending of securities."

ASHBEL GREEN, *Secretary*.

---

E. W. CLARK & Co.,

Philadelphia, Pa.

DEAR SIRS: You are hereby specifically authorized, from time to time to loan, either separately or with other securities, to yourselves as brokers or to others any securities held on margin for my account. This authorization shall continue until terminated by written notice given to you, which I understand it is my privilege to give at any time.

Very truly yours,

---

The CHAIRMAN. I will say that this Saturday session will not be a long one. We want to conclude, if we can, by 12 o'clock and possibly then have a short executive session. The first witness will be Edward Knight, but two other men on whom subpoenas could not be served have announced that they will be here during the morning, I understand. They are Bernard E. Smith and Thomas E. Bragg. The plan will be to put them on the witness stand and devote such

time as we can to them, getting started with them, and then have them come back at a later date.

Now, will Mr. Knight come forward and be sworn?

Mr. KNIGHT. Yes, sir.

The CHAIRMAN. Hold up your right hand: You do solemnly swear that what you will tell the committee in this investigation will be the truth, the whole truth, and nothing but the truth regarding matters now under investigation by this committee, so help you God.

Mr. KNIGHT. I do.

**TESTIMONY OF EDWARD P. KNIGHT, ACCOUNTANT, RICHMOND HILL, BOROUGH OF QUEENS, NEW YORK, AT PRESENT EMPLOYED BY THE UNITED STATES TARIFF COMMISSION**

Mr. GRAY. Mr. Knight, will you give the committee reporter your full name, please?

Mr. KNIGHT. Edward P. Knight.

Mr. GRAY. Where do you reside?

Mr. KNIGHT. In New York.

Mr. GRAY. Where?

Mr. KNIGHT. Richmond Hill, Borough of Queens.

Mr. GRAY. And what is your present business or profession?

Mr. KNIGHT. I am employed as an accountant at the United States Tariff Commission.

Mr. GRAY. You are an accountant, that is your profession?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Have you ever been employed by brokerage houses, not as accountant but I mean before you became an accountant?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Over what period of time?

Mr. KNIGHT. For practically 10 years.

Mr. GRAY. For how long have you been an accountant?

Mr. KNIGHT. About seven years.

Mr. GRAY. Did you say for a period of about seven years?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. During the period of time of your employment by brokerage houses, and also as accountant, have you come in contact with the workings of brokers?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And the buying and selling of stocks?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Has your work as an accountant been specialized at all?

Mr. KNIGHT. In Wall Street brokerage accounting; yes.

Mr. GRAY. As to brokerage house accounting entirely?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Now, some of the questions I will propound to you may be a repetition of matters we have gone into, but I want to get your view. Will you tell this committee just what a pool is?

Mr. KNIGHT. Yes, sir. A pool may be organized for any one of several purposes. One purpose is to buy stock in order to acquire control, which will not necessarily cause fluctuations in the stock very much. Another purpose is to liquidate securities, to sell securities for some reason or other, and that will not change the value of the stock to a very great extent. But the other pool operation is a

combination of men pooling their resources in order to manipulate a security for profit only. I believe that is the kind of pool that has been particularly discussed here.

Mr. GRAY. And that may be done either on the up side of the market, with a desire to raise or boost stock in order to make a profit for themselves; and it may be done for the purpose of depressing stock and making money for themselves on the short side of the market.

Mr. KNIGHT. In either case it is primarily for profit; yes, sir.

Mr. GRAY. Have you known in your experience of instances of pools, and we will start with the up side of the market, that have operated on the up side of the market?

Mr. KNIGHT. I have.

Mr. GRAY. And a pool, of course, is a combination of men?

Mr. KNIGHT. A combination of one or more men—no, pardon me, it has to be two or more men.

Mr. GRAY. Will you tell me from your own knowledge and from what has actually happened and come to your notice, as to how a pool operates for the purpose of advancing prices?

Mr. KNIGHT. It is first necessary to make a survey of the particular stock that is about to be inflated. Then, after all the members of the pool are satisfied with the stock—for instance, that it has a small capitalization or a small floating supply—and the pool finally signs an agreement and deposits certain moneys, according to the agreement, then the next thing to do is to enlist the aid of the specialist in that stock.

Mr. GRAY. Do you mean to say that in each instance where a pool is operating—that is, I mean operating with the desire and for the express purpose of inflating prices of stocks in a way other than would naturally occur—that they need to invoke the aid of the specialist?

Mr. KNIGHT. It could not very well be done without the aid of the specialist in that particular stock.

Mr. GRAY. All right. We will come back to that later on, and I will ask you about the operations of specialists in stocks, but you may now go on with your description of the method followed by such a pool.

Mr. KNIGHT. The objective will then be to set a certain figure, say, very much higher than the present market, and stock will be acquired as slowly and easily as possible, without making much of a change in its price. Sometimes trouble is encountered in the taking of that stock. For instance, on the specialist's book there might be orders which we call stop-loss orders, which means that several people go in and buy stock figuring there is going to be a move in the stock, and then in order to protect themselves from loss they enter a sale order probably two or three points, or as far as their margin will allow them to go, in order to absolutely protect themselves if the market should go far.

Mr. GRAY. In other words, you mean if they are buying for profit they will give a protecting order, which will be lodged with the specialist, stopping their position a point or two points below that at which they have purchased, in order that they may stop their loss?

Mr. KNIGHT. Exactly.

Mr. GRAY. Then, as a matter of fact, when such an order is given, the minute that that stock touches that point it means that that man automatically goes out of the market.

Mr. KNIGHT. It means that it becomes a market order, and the stock is immediately sold.

Mr. GRAY. And the first stock that is available is sold for his account?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And a pool that is operating on the up side means that some of those stop-loss orders may be touched off?

Mr. KNIGHT. They might be long 20,000 or 30,000 shares at any time, and it is necessary for the pool, with the aid of the specialist—and I will stop to explain that without that aid they would not know what stop orders are in the book—but it is necessary for them to concentrate the selling in lots of 5,000 or 10,000 in order to depress that stock, and as it is going down it will get the stops.

Mr. GRAY. In your experience in connection with stock-market matters have you found that these pools operating for a rise will frequently—and you used the expression “going down,” while the expression I have heard is “reach”—have you found that they reach for these stop-loss orders?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. In other words, they will depress the market temporarily in order to get those individuals with stops out?

Mr. KNIGHT. Yes; in order to get those individuals out of the market.

Mr. GRAY. Does that occur frequently?

Mr. KNIGHT. Yes, sir; it is a matter of common knowledge.

Mr. GRAY. And then the pool goes ahead?

Mr. KNIGHT. While the real rise in value is on. They keep taking stock as fast as they can. There is always a bid in there for the stock.

Mr. GRAY. They absorb stocks, you mean?

Mr. KNIGHT. That is right. And when they find that there is not much in the way of selling orders on the specialist's book, the time has come for them to put in their own orders collectively. That is, in one large amount of stock, and the stock on the strength of those orders will rise several points. Now, as it is going up, why, as you will see, their position has been accumulated at lower levels, and when the stock is going up that is the time when the pool starts to sell. They do not sell when it reaches the top, but below.

Mr. GRAY. They start to unload, then, in reasonably small quantities?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Now, let us see if we understand that clearly. We will say with an objective of six points above the market, after they have secured their position at as low a price as they could, then it is about halfway that they start to unload?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. So that by the time they have reached their objective they are entirely clear of the stock?

Mr. KNIGHT. Yes, sir. And sometimes the stock goes beyond their objective, but then they have no further interest in it, not unless there is some other reason.

Mr. GRAY. You mean that usually these pools work for a definite objective?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Now, tell me about the operations of pools for the purpose of depressing prices.

Mr. KNIGHT. Let me explain a little further on that subject while I am on it.

Mr. GRAY. Certainly.

Mr. KNIGHT. It is necessary to use more skill on the up side than on the down side. In other words, it is easier to depress stocks than to raise them.

Mr. GRAY. In other words, the short interests have the easier road?

Mr. KNIGHT. Liquidation is forced into the market in much easier fashion than is buying support.

Mr. GRAY. In other words, it is easier to depress prices than to raise them?

Mr. KNIGHT. Yes, sir. And when a pool is selling stock they must take any bids that come, and on that side of the market stock can come in so fast that it may overwhelm the brokers, and naturally they gain their objective easier.

Mr. GRAY. In other words, it brings in other liquidation?

Mr. KNIGHT. Yes, sir; and it is not necessary, always, to have the specialist enlisted to depress a security. As I have said, they can offer stock any way they want to, but it is always best to have the specialist's aid enlisted, because he knows exactly the position of the buying. There may be a strategic moment when on the buy side there is no support, and there might be bad news, and they might offer 5,000 or 10,000 shares of stock, and push the stock down, and they will have absolutely no opposition.

Senator FLETCHER. Then those operations depend somewhat on conditions?

Mr. KNIGHT. Yes, sir; they wait for a favorable moment.

Senator FLETCHER. For instance, prior to September of 1929 it did not require much of an effort to boost stocks?

Mr. KNIGHT. No, sir.

Senator FLETCHER. They did not have much trouble then about raising prices?

Mr. KNIGHT. No, sir; almost everybody wanted to buy at that time.

Senator FLETCHER. And after that, of course, the condition changed.

Mr. KNIGHT. After that there was forced liquidation.

Senator FLETCHER. Was there much in the way of pool operations prior to September of 1929?

Mr. KNIGHT. Yes, sir; there was a quantity of it. There was one, of course, as we all know, the radio pool which was the largest at that particular time. Radio stock rose to \$500 a share, I believe, and if I recall correctly it was not on a dividend-paying basis. It was therefore on a pretty false value basis, as you can see.

Senator FLETCHER. Do these pools, when they seek to depress prices, operate more at a time when prices are going up?

Mr. KNIGHT. It is usually on the up side.

Mr. GRAY. You are talking, now, about pools for the rise?

Mr. KNIGHT. Yes, sir.

Senator COUZENS. Do you know the names of any of these specialists that you refer to?

Mr. KNIGHT. I do not know their names, offhand. They change from time to time, and one would have to be in almost constant touch with a particular stock, or with the movements of the specialists on the floor. A man may go in and handle a particular stock for a while, and then feel that he does not want to handle it any longer, and go to another stock.

Senator COUZENS. But do you know the names of any specialists?

Mr. KNIGHT. Not now; but I could get the information for the committee if they wish to ask for it.

Senator COUZENS. I think we would like to know the names of some of the specialists so that we might inquire of them.

Mr. KNIGHT. I doubt if I could give them to you now.

Mr. GRAY. I will say, Senator Couzens, that the New York Stock Exchange could give us the names of all specialists.

Senator COUZENS. Are they all registered?

Mr. GRAY. Yes, sir.

Senator BARKLEY. And do they know what stocks they are specializing in?

Mr. KNIGHT. Yes, sir; they know that.

Senator BARKLEY. Do you know who was specializing in radio?

Mr. KNIGHT. Yes, sir; in 1929.

Senator BARKLEY. And who was it?

Mr. KNIGHT. M. J. Meehan.

Senator BROOKHART (presiding). Mr. Knight, you mentioned the fact that these specialists have charge of the stop-loss orders. Have any others a right to that knowledge or would it be a betrayal to give it to them?

Mr. KNIGHT. It is a betrayal. To give out any information of an order given to a broker, whether it be in the matter of stocks or real estate or otherwise, would be a betrayal, to give it out.

Senator BROOKHART. If he gives it to the specialist?

Mr. GRAY. No: Senator Brookhart, the specialist must have it, but what Mr. Knight is saying is, if the specialist turns that information over to anyone operating a pool it is a betrayal.

Senator BROOKHART. Oh, that is it.

Mr. KNIGHT. Yes, sir. In other words, orders in the specialist's book are confidential information. And of course if you were to place an order you would not want anybody to know about it.

Senator BROOKHART. The principal business in these stock operations, as it seems to me, is betraying the public; isn't that it?

Mr. KNIGHT. It would seem that more or less of it has been. Of course I should say that I have never purchased a share of stock. I am not prejudiced either way, but I know the right or the wrong of it from what I have seen.

Senator BROOKHART. Well, I think you are telling us what is wrong about their operations, and showing us a very much better view of the New York Stock Exchange than the president of that exchange did.

Mr. KNIGHT. Well, of course I will say that he has real knowledge of the workings of the exchange.

Senator COUZENS. Well, as to that, Senator Brookhart, I think we might use our own judgment, and perhaps a little imagination.

Mr. GRAY. Mr. Knight, is there anything distinct about the operations of a pool for the purpose of depressing stocks—that is, operations of a pool on the short side—that differs from the operations of a pool for the rise that you want to call the attention of the committee to, except its objective?

Mr. KNIGHT. Nothing more, I believe, except that it is not always necessary to have the aid of the specialist. At the same time it is really of importance if one can obtain that aid, because the specialist controls the current orders of that particular stock.

Mr. GRAY. You mentioned radio, and I want the committee to know whatever you can tell them about that. Do you know what radio was before that pool started to operate?

Mr. KNIGHT. To give you the exact figure I will say no, I could not do that, without the proper facts. But it was very low, possibly \$100 a share or less.

Senator BARKLEY. It was below 40 originally, wasn't it?

Mr. GRAY. You mean the old stock, before it was divided up. It may have been.

Mr. KNIGHT. I know it reached a peak of \$500 a share.

Senator BARKLEY. And then they split it up five for one.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And that stock, being a nondividend paying stock, did reach a price of \$500 a share.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And Meehan was the specialist in that stock?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And Meehan was reputed in that instance to be operating the pool?

Mr. KNIGHT. Yes; as far as I know. But of course all of that stuff can be shown.

Mr. GRAY. I am not now talking about your knowledge but what was reputed to be.

Mr. KNIGHT. Yes, sir; he was reputed to have been in a pool in radio at that time.

Mr. GRAY. And after that radio stock was taken to \$500 a share, being a nondividend-paying stock, it was split five for one.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And it is now selling around \$5 a share only?

Mr. KNIGHT. Yes, sir; which is equivalent to \$25 a share for the original stock.

Mr. GRAY. Do you know whether there was any other house in that pool except Meehan?

Mr. KNIGHT. Well, I know there was a certain house—it was W. E. Hutton, I believe.

Mr. GRAY. Do you mean W. E. Hutton & Co.?

Mr. KNIGHT. Yes; they did a lot of clearing for Meehan.

Mr. GRAY. They are brokers in New York and members of the New York Stock Exchange?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And Meehan besides being a specialist and a member of the New York Stock Exchange operates the brokerage house of M. J. Meehan & Co.?

Mr. KNIGHT. Yes, sir.



Mr. GRAY. I wish you would tell me about the specialist, although if you have covered the subject I do not want you to cover it again, but I should like for the committee to know the duties of a specialist. What does he do, what comprises in a general way his duties?

Mr. KNIGHT. When an order is given to a broker to buy at the market, that broker can devote his time to the particular transaction involved because it does not require much time. He goes in and makes a bid, and if there is an offer the trade is made. But—

Mr. GRAY (interposing). He does not need to go in that case to the specialist. If there is active trading going on in the stock he simply goes to the post and buys, is that it?

Mr. KNIGHT. If there is active trading going on in the stock, he goes to the post. He there inquires what the bids and offers are, and if an offer meets his approval he will bid, or sometimes he bids whatever he feels he is justified in bidding, and the trade is consummated. But in the case of an order given at a specified price, either to buy or sell, that order must be listed with the specialists in that stock, because the broker can not devote his time to that particular stock and wait for a price to meet the bid. Therefore the specialist, who is always at the post, takes those orders and lists them in his book. You understand that he has numerous orders to buy or sell, and stop orders, and all kinds of orders.

Mr. GRAY. And therefore he has the range of the market and some very important information?

Mr. KNIGHT. Exactly.

Senator FLETCHER. If I wanted to buy stock, couldn't I go out and buy it? Have I got to go to the stock exchange?

Mr. KNIGHT. You have no market outside. It is not likely that you would attempt to go outside to buy stocks, where you could not have the advantage of knowing how things were acting and would get the worst of it.

Senator GLASS. Well, does anybody anywhere know about that?

Mr. GRAY. And even when a man buys on the stock market he doesn't know.

Mr. KNIGHT. Well, when you go to the place where a market is maintained we must agree that it shows the proper market price for the stock. Where else could one go? If a man is in California and wants to buy United States Steel, we know that that order must be submitted on the New York Stock Exchange.

Senator BARKLEY. And that is true, whether it involves speculation or investment?

Mr. KNIGHT. Yes, sir. You have to go to the place where the stock is offered most freely.

Senator FLETCHER. It is sold generally to the public, and all that you have to find out is whether people are offering the stock?

Mr. KNIGHT. Well, if United States Steel is selling at 30 on the stock exchange, and you went outside, some one might want to pay them 40 for it.

Mr. GRAY. But if there is any individual who owns it and cares to sell it to you, I mean off the stock exchange, there is nothing to prevent it?

Mr. KNIGHT. No, sir.

Mr. GRAY. But such cases are very rare?

MR. KNIGHT. Yes, sir. And when people know it is selling at 30 on the stock exchange it would be foolish for a man to say: "You can have it from me for 40 or 50," whichever he prefers.

MR. GRAY. He may desire to hold the stock for an advance.

MR. KNIGHT. Yes, sir. In other words, he may feel that ultimately he can get that price.

MR. GRAY. I should like to have your description with respect to the borrowing and loaning of stocks.

SENATOR BARKLEY. May I ask a question first about specialists?

MR. GRAY. Certainly.

SENATOR BROOKHART (presiding). Proceed, Senator Barkley.

SENATOR BARKLEY. Who employs the specialists and pays them?

MR. KNIGHT. A specialist is a member of the New York Stock Exchange who decides to become a specialist in a particular stock. He makes application to the board of governors, and if they approve the application, then he is made a specialist, and he is paid through a certain proportion of the fee of the broker. In other words, if I give an order to a broker and the specialist executes that order, the specialist is supposed to be paid by the broker. Of course, there is a range of fees, but I think the minimum is given, and I think the amount paid to the specialist is \$2.50.

MR. GRAY. What did you say?

MR. KNIGHT. I said \$2.50.

MR. GRAY. In other words, a broker gets a certain commission for either buying or selling stock, and out of that he pays \$2.50 to the specialist.

MR. KNIGHT. He pays \$2.50 to the specialist for 100 shares.

MR. GRAY. No matter what the broker's commission may be?

MR. KNIGHT. Yes, sir. And then, of course, the commission varies a little bit according to the price of the stock. On the higher-priced securities they get a little more for the execution of orders, but I believe \$2.50 is the minimum.

MR. GRAY. And the specialist in that case carries out the work which the broker could not afford to carry out because of the conditions you have mentioned?

MR. KNIGHT. No; the broker could not waste that much time at the post.

SENATOR BARKLEY. Could there be more than one specialist in a stock?

MR. KNIGHT. Yes, sir. If there is a large amount of trading there can be more.

SENATOR BARKLEY. Of course, specialists on one particular stock agree as to what their recommendations will be, do they not?

MR. KNIGHT. How was that, Senator?

SENATOR BARKLEY. Do specialists give advice as to the purchase or sale of stocks?

MR. KNIGHT. They might if it would help them any.

SENATOR BARKLEY. Well, is it an inducement to them to give advice to the purchasers or sellers of stock because they get a certain fee out of it?

MR. KNIGHT. Oh, no. They are assured of a certain fee at all times.

SENATOR BARKLEY. I know; but the more they sell or buy the more their fees will amount to.

MR. KNIGHT. Yes; but I have not heard of any cases where they encouraged the buying or selling of a particular stock.

MR. GRAY. The vice of it is the information they have, or not the vice, but the improper thing is the advice they give out.

MR. KNIGHT. It is the manipulation by people by reason of getting the information.

MR. GRAY. Tell us about the borrowing and loaning of stocks. Tell us about the short position.

MR. KNIGHT. The only time when there is any demand for stock is when there is a short position.

MR. GRAY. Well, tell us about it.

MR. KNIGHT. There is a so-called market on the stock exchange called the loan market. They regulate the rate of interest charged for certain securities. Some securities are not much in demand, and they may loan at a rate of 1 per cent or 2 per cent on the value of that particular stock.

MR. GRAY. Let me interrupt you right there to ask: There is always a call money rate established on the New York Stock Exchange, is there not?

MR. KNIGHT. Do you mean for banks?

MR. GRAY. No; by the New York Stock Exchange, or not by the New York Stock Exchange, but, in fact, there is a call money rate in existence from day to day and it varies, isn't that so?

MR. KNIGHT. Yes, sir. A renewal rate also.

MR. GRAY. And this rate that is fixed for the loaning of stocks is, as a matter of fact, always less than that call money rate, isn't it?

MR. KNIGHT. Absolutely. It has never equalled it, to my knowledge.

MR. GRAY. Now, go ahead with your explanation. But first, they fix the rate of interest to be charged in the case of such stocks?

MR. KNIGHT. Yes, sir.

MR. GRAY. Now, go ahead.

MR. KNIGHT. The lender of stock delivers, and he in turn receives the amount that that stock is selling for at the particular time, and for the use of that money that he gets from loaning the stock, he pays interest to the borrower. Is that clear?

MR. GRAY. Yes; I think so.

MR. KNIGHT. He pays interest, as I say. Now, sometimes in the case of securities where there is a demand, they loan flat.

MR. GRAY. In other words, they loan without any interest charge whatsoever.

MR. KNIGHT. Yes, sir.

MR. GRAY. Now, go ahead.

MR. KNIGHT. Then when stocks are in great demand, they loan at a premium. That is, the borrower of such a stock has to pay for the use of that stock without interest, a certain premium, which may run from one two hundred and fifty-sixth of \$1 to \$1 per share per day.

MR. GRAY. So that in the case of some stocks, when they are borrowed, the person who borrows them may have to pay as \$1 per day per share.

MR. KNIGHT. Yes, sir; for the use of that stock.

MR. GRAY. So that if a person is operating on the short side of the market, and has to pay such a premium in order for him to

hold his position and stay with the stock, that stock has to drop \$1 each day for him to get his cost, or where it was at the inception of the transaction.

Mr. KNIGHT. Yes, sir; but they do not figure it that way because it is insignificant, as to that small amount, for they can depress the stocks 50 or 60 points and very well take care of it.

Mr. GRAY. Of course. But in case of a stock of that class, the short seller has to take into consideration that he must depress the stock sufficiently to cover that cost before he can make his profit.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Go ahead.

Mr. KNIGHT. To my knowledge, the stock loan rate never rises higher than 3 or 4 per cent. You can see what that means in comparison with the call-money rate, which went as high as 20 per cent, as we know, in 1919 that to borrow money from banks it was necessary to pay 20 per cent interest. In fact, I borrowed some money for a house that I was working for at that figure.

Senator FLETCHER. What was that date?

Mr. KNIGHT. It was in 1919. Money was very scarce at that time, and in order to get money you had to pay a high rate of interest. The stock loan rate, however, was never anywhere near that. That means that the broker instead of pledging securities at a bank and paying the current rate of interest that banks charge, which was the renewal rate, they go and loan stocks, where they can get it at a much lower rate. And besides that, they can do it without putting up collateral in addition to the amount of 25 per cent. When you pledge 100 shares of stock in a bank you know it is necessary in order to get \$10,000 to put up \$12,500 or \$13,000 worth of stock to obtain that money. So it is necessary for a firm not only to go into its own capital but to use their customers' money also in the case of borrowing at the bank, whereas they can loan stock and they are absolutely even. They do not have to touch one bit of their capital. So you can see how they can extend their business as far as they want to go if they are heavy lenders of stocks.

Mr. GRAY. If it so happens that there is a very high call-money rate they have to pay that rate to the banks.

Mr. KNIGHT. Yes, sir; and have to put up additional collateral.

Mr. GRAY. In other words, they will only get from banks practically 75 per cent of the market value of the stocks put up.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And so it is decidedly to their advantage to take their customers' stocks, or any other stocks they may have, instead of rehypothecating it at a bank, where they have to pay a large rate of interest and only get 75 per cent as a loan. I say, instead of doing that they loan the stocks, which is really a rehypothecation to some other broker who may want it, and in that case they never pay over 3 or 4 per cent; and, as a matter of fact, they get 100 cents on the dollar instead of 75 cents on the dollar of value.

Mr. KNIGHT. Yes, sir. And there is only one argument against that, which is, that one broker may say, "I do not want to loan to such-and-such a broker, because I am afraid he may make an assignment, and I might have to go out into the open market and recover my stock by buying it." But if there is a good loan clerk, and he will mark that particular stock, which may increase 2 or 3 points;

and if he will demand from the broker that amount of money, and always keep the stock at the market, then if any certain firm fails that that stock is loaned to, there is no loss.

Mr. GRAY. By the way, have you completed telling us all you can tell us about the matter of the borrowing and loaning of stocks?

Mr. KNIGHT. No, sir.

Mr. GRAY. Go ahead and complete that. I won't ask you another question until you finish that.

Mr. KNIGHT. In the matter of charging interest, in the case of the margin customer, with a debit balance, and on collateral loans with banks, interest is figured, upon finding the amount of interest that a particular firm might pay over a period of a month, then they are all figured so as to obtain the average call money rate for the use of money.

Mr. GRAY. In other words, at the end of the month a broker makes a calculation to determine how much the money he has borrowed has cost him during the month?

Mr. KNIGHT. That is a matter not with a bank.

Mr. GRAY. All right.

Mr. KNIGHT. When he arrives at that figure, and we will say it may be  $3\frac{1}{2}$  or 4 per cent, if money has been around that, then he will add anyway from 1 per cent to  $1\frac{1}{2}$  per cent in excess and charge that rate against the debit balances of his customer.

Mr. GRAY. In other words, you mean to say that when a broker figures the amount of money he is going to charge his customer for interest, he takes the amount that it has actually cost him at the bank and adds a percentage, for no reason except to make a profit?

Mr. KNIGHT. For profit only.

Mr. GRAY. And in that way he charges his customer so much more than it has actually cost him?

Mr. KNIGHT. That is exactly right.

Mr. GRAY. Let us assume that it so happens that in certain States, where the rate of interest is fixed by law, do you mean to say that oftentimes the rate which the broker charges to his customer for the money is far beyond the legal rate of interest permitted to be charged?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. How does he cover that and get around the law against usury?

Mr. KNIGHT. Well, he first puts down the rate of interest charged to his customer—6 per cent, we will say.

Mr. GRAY. Which is the legal rate.

Mr. KNIGHT. Yes, sir. And underneath that he puts an item of carrying charges  $3\frac{1}{2}$  per cent.

Mr. GRAY. In other words, he divides it and charges his customer in the first place more interest than it actually costs him, and in the second place, he charges his customer the legal rate of interest and then adds to it by an item called carrying charges?

Mr. KNIGHT. Yes, sir.

Senator FLETCHER. Is that done by any agreement between customers and broker, or is it just the private handling by the broker?

Mr. KNIGHT. The customer has nothing to say about it.

Mr. GRAY. In other words, it is simply an arbitrary action on the part of the broker.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. And if the customer does not want to accept it, he simply gets out.

Mr. KNIGHT. Yes, sir. If he does not pay it, he gets out. It used to be the case that nearly every stock exchange house put down what interest they charged in their statement, but in the last couple of years they do not put down anything except interest, so much, and you would have to get a public accountant to figure it out for you. In the case of the average trader he just could not figure it out. It would take him all night to try to figure it out.

Senator FLETCHER. In other words, the customer is at the mercy of the broker.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. Oh, absolutely at the mercy of the broker.

Mr. KNIGHT. There is no doubt about that.

Mr. GRAY. And another thing: In fixing that rate of interest, we will say, that a broker has made from lending that or all of his customers' stocks additional money by way of premium or otherwise, does he ever take that into consideration as a credit either in figuring the amount of interest that the money has cost him during the month or make any calculation as to what he should charge the customer?

Mr. KNIGHT. No, sir.

Mr. GRAY. And invariably he gets that as a separate item of profit for himself?

Mr. KNIGHT. Yes; and it is none of the business of the customer.

Mr. GRAY. Unless there is some contract.

Mr. KNIGHT. Unless the customer goes in and says, "Why am I being charged this when you are loaning my stock?" Then they will give him half of the interest, we will say.

Mr. GRAY. But they won't always do it.

Mr. KNIGHT. It depends upon the customer.

Mr. GRAY. It depends upon who the customer is.

Mr. KNIGHT. Yes, sir. If it is a small account they may ignore him completely.

Mr. GRAY. What can you tell me about the hypothecation or re-hypothecation of stock?

Mr. KNIGHT. Before I go into that, I would like to mention something.

Mr. GRAY. All right. Go ahead.

Mr. KNIGHT. When a man sells 100 shares of stock short, he borrows that particular short. Now, he sells it, say, for \$10,000. He borrows it for \$10,000. The stock is delivered to him and he makes delivery. There is absolutely no difference in the amount of money involved. He receives \$10,000, and he—

Mr. GRAY (interposing). That is between two brokers?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. In the case of borrowing and lending brokers.

Mr. KNIGHT. Yes, sir. But in the borrowing of that security he probably gets 1 to 2 per cent interest, but he never allows that interest to the short customer.

Mr. GRAY. Yes; and I thought I covered that just now when I said the profit that the customer makes by way of interest, premiums, or otherwise, does not go to the customer in the way of a credit.

Mr. KNIGHT. That is for the borrower. Now, the lender who loans stock pays 1 per cent interest, and when the average bank call rate is  $3\frac{1}{2}$  per cent. He doesn't charge that customer  $3\frac{1}{2}$  per cent or  $3\frac{3}{4}$  per cent, or whatever it may be, but the customer gets the little end of the bargain by being charged more by 2 per cent, probably.

Mr. GRAY. In other words what you mean is this: If a broker makes on one end of it, the customer does not get the benefit of it; and if the broker pays out on the other end of it, he not only charges him that amount but something in addition.

Mr. KNIGHT. Yes, sir. And that is an enormous sum in the course of a year.

Mr. GRAY. If this borrowing were taken away, one of the very large sources of income of a broker would be removed?

Mr. KNIGHT. Yes, sir. It is commonly known that the interest received by a broker, that goes directly into the profit and loss account, will very nearly carry the expense of that particular office.

Mr. GRAY. That will carry the office and the rest is a clear profit.

Mr. KNIGHT. Yes, sir.

Mr. GRAY. What about the hypothecation cards?

Mr. KNIGHT. They have been in existence as long as I can remember.

Mr. GRAY. What are they?

Mr. KNIGHT. It gives the broker the right to pledge securities that are in a particular customer's account with the bank in order to obtain money.

Mr. GRAY. What about the hypothecation cards?

Of the customer giving the broker the right to rehypothecate the stock?

Mr. KNIGHT. Yes, sir.

Senator FLETCHER. These brokers are all members of the stock exchange, are they not?

Mr. KNIGHT. That is correct.

Senator FLETCHER. Does the stock exchange know about these practices you have been telling us about?

Mr. KNIGHT. Well, they are practiced by member firms, so you can use your own judgment as to whether they know or not. I imagine they do, because the member firms have some representation on the board of governors of the New York Stock Exchange.

Mr. GRAY. I will say, Senator Fletcher, that I am going to come in a moment to the question of the duties of brokers and their authority on the exchange.

Senator FLETCHER. All right.

Mr. GRAY. Mr. Knight, you have referred to the hypothecation or rehypothecation cards. Now, what about them?

Mr. KNIGHT. A law was enacted by the State of New York to the effect that at no time shall a broker hypothecate a customer's security for any more than the amount that is due the broker, which is his debit balance, unless the broker obtains the customer's consent, which practically nullifies the law. All that a broker has to do is to go to a customer and say, "Kindly sign this hypothecation card"; and that gives him the right to do anything he wants on that particular security if there is only a 2-cent debit balance against that stock. But the New York Stock Exchange made a rule of their own, which says at no time shall they hypothecate stocks any more than is

fair and reasonable, as Mr. Whitney stated it. They go a little beyond the law.

Mr. GRAY. And what is the practice in fact?

Mr. KNIGHT. Why, just to get the stocks.

Mr. GRAY. And what happens if a customer does not sign that card?

Mr. KNIGHT. Well, it all depends on who the customer is. If it is some large trader and they do not want to lose him, and he says: "I won't sign that card." Then they will probably do nothing about it. But if it is a small man who feels he should not sign the card, why, invariably sooner or later, his account will be removed.

Mr. GRAY. He signs the card or removes his account.

Mr. KNIGHT. Yes, sir. He will be asked to remove it unless it hurts the broker.

Mr. GRAY. Now, I will come to the question propounded by Senator Fletcher. What accounting supervision does the New York Stock Exchange have over its brokers, or what does it do?

Mr. KNIGHT. It submits a questionnaire to be answered semi-annually, every seven months and five months.

Mr. GRAY. Is that questionnaire a complete questionnaire that will give the stock exchange a detailed history of what each particular broker has been doing during the past six months?

Mr. KNIGHT. No, sir.

Mr. GRAY. It is superficial, is it not?

Mr. KNIGHT. Very much so. It deals in totals only.

Mr. GRAY. What other supervision, if any, in the way of audits or looking into accounts, does the New York Stock Exchange exercise over its broker members?

Mr. KNIGHT. If a broker firm fills out a questionnaire and the accountants of the stock exchange find that the capital structure of that particular firm is not correct; or if they need additional capital, or are doing more business with the capital they have than they should do, or there is something that shows up very glaringly, they will send one of the accountants of the exchange to that firm.

Mr. GRAY. And only then?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. There is no periodical investigation of the books of brokers?

Mr. KNIGHT. No periodical investigation, but only a questionnaire, which can be prepared by anybody.

Mr. GRAY. And when the questionnaire is answered at the end of six months that is over.

Mr. KNIGHT. Yes, sir. The firm trading accounts are submitted in totals. They do not specify what lines of securities are carried in that account. And nobody will know unless they go to the broker. Bad accounts—or perhaps I should not use the word "bad," but undermargined accounts are with the good accounts. If they are not enough to protect the broker, they are combined with the good accounts, and then no one can tell about them.

Mr. GRAY. In other words, some accounts may be undermargined and some accounts overmargined, and the broker himself may be in an unsafe position as to other accounts which affect his customers.

Mr. KNIGHT. Yes, sir; and at no time do they investigate it unless something glaring shows up.



Mr. GRAY. What, if anything else, can you tell this committee as having come to your attention with respect to either lack of supervision, what in your judgment are improper practices, or other matters that you think this committee ought to know; I mean that may have come to your attention in your work of the auditing of accounts of various brokers?

Mr. KNIGHT. We have had several failures recently of New York Stock Exchange firms. I believe everybody is acquainted with that matter. There were five or six of them within the last one or two years, and they dealt not only in commission business, but they took a line of stocks themselves. Sometimes it might be an investment trust and sometimes it might be trading in their own account. Now, the reason for their failure has been given as this, that they took positions themselves. It means that instead of putting up additional capital by themselves when the stocks they were carrying decreased in value and the banks called for more margin, they used whatever stocks or credit balances any particular customer had in order to make that deposit of additional margin. And it has been my belief that doing that is not strictly right. There should be a requirement of additional capital.

Mr. GRAY. In other words, let me restate that, if I may: A firm has a certain amount of capital and it uses that to speculate with.

Mr. KNIGHT. And to conduct their business.

Mr. GRAY. Yes; I beg pardon; and to conduct their business, both. But I mean that it is not absolutely necessary in connection with their pledging even to use that for speculative purposes, but some firms do, and then when they get in the position that individuals find themselves in at times, where they are required to put up more money to protect their interest, instead of putting up more capital, they use the equity of their customers that they have under their control.

Mr. KNIGHT. That is absolutely right.

Mr. GRAY. And when the market goes still further down and there is no more equity with which to protect their interest, than they become insolvent?

Mr. KNIGHT. Then an assignment has to be made?

Mr. GRAY. Your suggestion there, if the committee will pardon me for expressing a personal opinion, looks like a good one. And that suggestion is that brokers should not be permitted in the matter of their own speculation to use any other moneys than their own, and should not be permitted to use their customers' money for the purpose of carrying stocks in which they are dealing.

Mr. KNIGHT. They should be treated as two distinct businesses. In other words, if a stock they are carrying is going down, then instead of using the customer's money, they should put up additional capital to take care of their own business. The customer should have some protection. And in that way, if losses are made due to bad judgment, the customer will not be affected by it.

Mr. GRAY. In the practice as it is followed now, they use for speculative purposes not only their own money but the stocks and balances of customers, and then if speculation goes bad, the customers are going to have to pay for it.

Mr. KNIGHT. Yes, sir. Mr. Whitney stated that to stop that it could not be very well done, as there were too many stocks on their

shelves. But I say it could and should be separated and made an entirely different business.

Mr. GRAY. Mr. Whitney made the statement that the most of the brokerage houses keep their customers' securities each in a separate envelope in order to tell on the instant whether they did not have a customer's authority to rehypothecate the entire amount, they might see that no more than the proper and legal amount was used for the purpose of borrowing. What do you know about that practice? Is it true?

Mr. KNIGHT. It is and it is not. The only securities kept in separate envelopes by brokers are securities free from any indebtedness. That is what we call safekeeping. But in some accounts they have a surplus margin and it is not kept separate. It is kept in the box. They can at any time use that particular stock in order to make loans.

Mr. GRAY. Where a man has paid for all of his stock and it is left with the broker, he keeps that separate?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. But where stock is purchased on margin, and where the customer simply has an equity in it, and there are a number of such accounts in one stock, we will say United States Steel, that stock is all dumped together and put in the box?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. So that when the broker lists it for that purpose he does it without consulting the record as to whether the customer has signed a rehypothecation card or not?

Mr. KNIGHT. Yes, sir. It only give the broker protection, is all, and he uses what stock he has.

Mr. GRAY. Can you give us anything more about accounting supervision by the stock exchange?

Mr. KNIGHT. Yes, sir. If periodical audits were made, not necessarily by the stock exchange but by outside accountants, I think it would be a great help and be a protection to the customer. I doubt if there is any rule now of the New York Stock Exchange that really protects the customer.

Mr. GRAY. How can this committee, if it can be done at all, through any audit or accounting investigation, reach the operations of these pools? I do not mean, of course, to find out what men have been combining together to legitimately buy or sell stocks, or whether they operate on one side of the market or the other; but what can this committee do in that respect for the purpose of finding evidence of improper operation of pools? Can anything be done?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. What?

Mr. KNIGHT. It will be necessary to select whatever stocks, those that have been the most speculative, or that the most short interests or pool operations have been in, and proceed to the clearing house of the New York Stock Exchange, where each night there is registered all transactions by every broker.

Mr. GRAY. And it is separated by brokers and stocks?

Mr. KNIGHT. Possibly we are looking at General Motors, we will say. You will find their transactions for that day. You will find John Jones' company gets in 60,000 shares and another company and another one, and so forth. You will then pick out the largest number of traders on that particular day and proceed to find the houses and

continue to break down from there until you can find out actually what accounts were instrumental in doing the trading that day. Sometimes you might find one house doing nothing and another house trading. Sometimes you might find accounts in different names. They represent the one pool. They will deliver the stock on the outside from one house to the other, and you will find what connection that house has with the other, and in that way you might be able to arrange together in bulk all the operations and transactions of every bear raider or manipulator on the up side. It is possible; it can be done. It can not be done by the gathering of statistics as we have had here. I mean that only shows the position as of a certain day. What we must have is the tradings actually taking place on that particular day or another in comparison.

Senator BROOKHART. Is there any arrangement on the stock exchange to find out those actual facts as you have indicated them now?

Mr. KNIGHT. They can be obtained.

Senator BROOKHART. Do they have any system of supervising them?

Mr. KNIGHT. No, sir. They are satisfied with all of these transactions when they are balanced.

Senator BROOKHART. In other words, if they are balanced off and whitewashed up—

Mr. KNIGHT (interposing). They have no further interest in it.

Senator BROOKHART. They have no further interest in it?

Mr. KNIGHT. No, sir.

Mr. GRAY. What you mean is that an accountant who knows his business with a force under him can start with the stock clearing house transactions as a basis and probably ascertain a picture that to him, if he is familiar with such matters, creates a suspicion in his mind?

Mr. KNIGHT. That is right.

Mr. GRAY. And then he can go to the various brokerage houses that cleared those particular stocks, examine their books for the purpose of determining just what those transactions were as the books show, break them down as you say, find out who the customers are, trace those—then, of course, that is where the investigator's work would come in—trace those customers, and then in all probability in the instances where pools exist or improper manipulation exists up and down, you can get at the bottom of it?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. You do not anticipate, in other words, our bringing some of these men here and asking them simply whether they have been behaving themselves and they will tell us?

Mr. KNIGHT. It is of no avail.

Mr. GRAY. Well, it has been of some avail.

Mr. KNIGHT. Well, the brokers keep good records; records you can trace with numbers. They keep a list which is always easy to trace with the numbers. You can trace it without any trouble through the individual blotter sheets of a broker's house.

Mr. GRAY. Is it or is it not a fact that exists that these brokerage houses, in some instances, operate as part of the particular pools along with outside traders?

Mr. KNIGHT. They do.

Mr. GRAY. And have you known of any instances where those particular brokerage houses operating with pool operators, either for the up or the down side of the market, have been sending out market letters advising their customers with respect to that stock that is contrary to the interest or helpful to their own?

Mr. KNIGHT. It has been done, but I can not cite specific instances now. That could be determined also by the operations of that particular house and comparison of their letters of that period.

Mr. GRAY. In other words, by contrasting the operations of the pool itself after it was located through a certain brokerage firm with the market letters that they were sending out during the period of time that the pool was operating, you can get that story?

Mr. KNIGHT. That is correct; yes, sir.

Mr. GRAY. By the way, in the examination or during your accounting work in connection with these brokerage firms, do you find accounts that are in names that can not be identified?

Mr. KNIGHT. Oh, very often.

Mr. GRAY. Do you find them in numbers?

Mr. KNIGHT. In numbers and in names.

Mr. GRAY. It is the practice of an accountant, as I understand it, when he makes an audit, whether it be of a bank or of a brokerage firm or of any other institution, to check up by requiring the particular individual whose account is there to confirm to him the—

Mr. KNIGHT (interposing). Correctness.

Mr. GRAY. Correctness of it?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. What do you do when you find these numbered accounts and these names that do not mean anything?

Mr. KNIGHT. Those accounts we will not have addresses for.

Mr. GRAY. How do you get information?

Mr. KNIGHT. So we list all those and submit them to a partner, and he signs for all those.

Mr. GRAY. In other words, you do not know and they will not tell you who they are for, so the partner gives you the confirmation?

Mr. KNIGHT. Yes, sir; that is correct, and he signs for the list.

Mr. GRAY. Inasmuch as your accounting is a private job, why, you have to take their statement for it and let it go at that?

Mr. KNIGHT. Exactly.

Mr. GRAY. Is that frequently?

Mr. KNIGHT. Well, practically in every instance.

Mr. GRAY. Practically in every instance?

Mr. KNIGHT. I would say so.

Mr. GRAY. In other words, practically in every brokerage house where you make an audit you find instances of that type?

Mr. KNIGHT. I will not say they are all dummy accounts, but—

Mr. GRAY (interposing). You do not know who they are?

Mr. KNIGHT. I do not know.

Mr. GRAY. You are not told and you are not given information as to who the accounts are at all?

Mr. KNIGHT. We can not antagonize the brokers.

Mr. GRAY. They will not give you the address of these people and they will not tell you who the numbers of the accounts represent?

Mr. KNIGHT. No, sir. They just sign the slip and we will qualify in our report that that took place.

Senator BROOKHART. How can this committee find out those facts?

Mr. KNIGHT. Well, they can be found out by the testimony from the brokers. Of course, if they tell an untruth, that is a different thing. But that may be found out.

Mr. GRAY. In other words, you have the data secured in the way that you have indicated and those people can be brought here and produced?

Mr. KNIGHT. Produce the individual in whose name the account is carried.

Senator FLETCHER. We called for the records showing the short position between April 6 and April 8. How will we ascertain which shorts covered approximately 1,300,000 shares within two days prior to April 8?

Mr. KNIGHT. By referring to the clearing house, as I had stated before, all that information can be obtained. But the information that the committee has recently heard does not really—it gives that a thousand shares short was in Sadie So-and-so's account and a thousand in another's account, and there is absolutely no way of connecting those up without going further. You must go back to the broker's office and find out what connection, if any, one account has with the other.

Senator FLETCHER. The records show there were 1,300,000 shares sold within two days prior to April 8. How can we find out——

Mr. KNIGHT (interposing). Who sold them?

Senator FLETCHER. Who sold them?

Mr. KNIGHT. Very easily; yes, sir.

Senator FLETCHER. From the clearing house?

Mr. KNIGHT. Yes, sir; from the clearing house. You might find some were sold in this house and some were sold in another house, because usually pools and bear raiders operate in more than one house in order to keep their true position a secret. It is necessary that nobody should know their exact position, because oftentimes brokers' clerks divulge certain information that would be detrimental to the pool. So they are spread over several houses.

Mr. GRAY. Have you ever known of a brokerage house in your time that operated on a commission basis alone and did not sell for themselves, that became insolvent?

Mr. KNIGHT. Never.

Mr. GRAY. As a matter of fact, that can only occur in the event of there being some embezzlement of funds or something wrong that is liable to happen to any concern in any business?

Mr. KNIGHT. Rarely does the embezzlement go to such an amount that it will injure them in any way at all. It would be covered by insurance, and so forth. But if the margin clerk is attending to his business and the firm is operated in a good, efficient manner, there is never any doubt as to the solvency of a commission house.

Mr. GRAY. Have you ever known instances where these brokerage houses having securities in these separate envelopes that are fully paid for have hypothecated them at banks?

Mr. KNIGHT. Oh, yes.

Mr. GRAY. Now that is absolutely improper, of course?

Mr. KNIGHT. Of course. Now whether it is a mistake or whether the intention might have been good or might have been carelessness on the part of the clerk, that I do not know. But we have established they found their way into bank loans.

Mr. GRAY. In other words, in making your accounting in trying to locate certain securities that were fully paid for in charge of brokers for safe keeping, you have found them in banks?

Mr. KNIGHT. We have found them in banks.

Mr. GRAY. Now, there is something that has never been talked about by any of the witnesses here and may have no significance, but just for information will you explain to this committee what "puts and calls" are?

Mr. KNIGHT. A "call" is an option. They are really options. A "call" is the agreement between one individual and another to buy a certain number of shares at a particular price for a certain amount of money. For instance, if I want to buy a call for 60 days or 30 days, I will go to the "put and call" broker and ask him will he sell me a call which gives me the right to buy at a certain price for a consideration of possibly \$139 or \$135, whatever it might be, and any time within that 60 days if I choose I may call upon that broker to deliver me the stock at the price agreed in that particular call.

Mr. GRAY. It is pure gambling in futures, is it not?

Mr. KNIGHT. Absolutely. And with that call I may take it—of course, it has to be guaranteed by a member of the New York Stock Exchange before it becomes valid—I may take that call and deposit it with a broker, and instead of putting up a margin—and if I am compelled to put up a margin it will be a small amount—I can sell against that call back and forth over that period of 60 days a hundred shares at any time I care to.

Mr. GRAY. In other words, you assume a position in the market where you are entitled to get at a certain price within a certain time a certain number of shares of stock?

Mr. KNIGHT. Exactly.

Mr. GRAY. And with that as a basis, for which you paid a comparatively small consideration, you can operate?

Mr. KNIGHT. I can; yes.

Mr. GRAY. Pure gambling, isn't it?

Mr. KNIGHT. Positively.

Mr. GRAY. And is a "put" just the other side of it?

Mr. KNIGHT. The "put" is the other side. I have an agreement to sell at any time within a certain period.

Mr. GRAY. There is no stock delivered in that case like there is in selling short?

Mr. KNIGHT. Only when you exercise the privilege of a put or call.

Mr. GRAY. By the way, Mr. Whitney has said that a strict regulation of short selling would cause violent fluctuations, and he has also said that if the short selling were abolished in the Stock Exchange it would have to close, something I am not so familiar with, but you may be, and that is the Cotton Exchange. What rulings do they have with respect to the regulation of these fluctuations and the short selling?

Mr. KNIGHT. From the opening in the morning on the cotton exchange until the close no option shall rise or decline any further than 2 cents a pound. That is, there is a limit set.

Mr. GRAY. Are you accurate about that?

Mr. KNIGHT. Yes, sir.

Mr. GRAY. You mean that they control a fluctuation by fixing the price?

Mr. KNIGHT. Yes, sir, and when it reaches 2 cents a pound below the opening or goes 2 cents a pound above it, trading can not continue at any other price only between that 2 cents.

Mr. GRAY. The cotton exchange stays open?

Mr. KNIGHT. The cotton exchange stays open. But of course the options on cotton, the price of them are more or less uniform, you see. You would not have the same thing in stocks. We have stocks selling at 5 and some at 100. It would be hard to put a range on them.

Mr. GRAY. Now, I think, Mr. Knight, that I have covered all the matters that I have—that I want to ask you about. Is there anything else for the information of the committee you can tell us?

Mr. KNIGHT. I really don't know. I believe I have covered everything pretty well, outside of it is my belief with the principal belongs the interest, as in the case of stock loans, and there should be some protection given to the marginal trader and to the investor. It has been the policy of the stock exchange at all times to protect the broker only. I mean I doubt if I know of any instance where they have really come out and protected the customer. I believe I have covered the most of that in my testimony.

Mr. GRAY. In other words, the stock exchange consists of brokers, and all these brokers, by the way—I don't know whether this has ever been developed—brokerage houses, that are members of the stock exchange are either individuals or partnerships, are they not?

Mr. KNIGHT. That is correct, yes.

Mr. GRAY. There are no corporations?

Mr. KNIGHT. No corporations whatsoever.

Mr. GRAY. That is all I desire to ask him, Mr. Chairman.

Senator FLETCHER. Do you think this last order that they made in November, I believe, with reference to short sales, corrects the situation as to short sales?

Mr. KNIGHT. No, sir. It protects the broker only. In their original hypothecation card they found that they did not have any clause in there about the loaning of customers' securities. It only gave them the privilege of hypothecating at a bank or pledge at a bank. So in order to protect themselves it was necessary that they issue a new order that the consent of the customer to loan the stock be secured. And it was an easy matter to get that. It was only for their protection.

Senator FLETCHER. I mean this rule not permitting them to sell below the last quotation.

Mr. KNIGHT. I believe that that was brought out pretty well by Mr. Gray yesterday when he stated that the selling of long stock would allow the broker to come in and sell short. I forget who was the witness at that time.

Mr. GRAY. I am sorry; I was not listening at the moment.

Senator FLETCHER. You do not think that rule protects against bear raids?

Mr. KNIGHT. No. Something more than that—supervision of the brokers at that particular post is necessary—strict supervision.

Senator FLETCHER. Do you know anything about any bear raids?

Mr. KNIGHT. I haven't any facts on that right now, but some information probably could be compiled as to that. I would not feel justified in citing any instances now without the actual facts before me.

Mr. GRAY. All right; that is all.

The CHAIRMAN. The next witness will be Thomas E. Bragg.

Do you solemnly swear the evidence you are about to give will be the truth, the whole truth, and nothing but the truth?

Mr. BRAGG. I do.

The CHAIRMAN. So help you God.

Mr. BRAGG. So help me God.

#### TESTIMONY OF THOMAS E. BRAGG, NEW YORK CITY

Mr. GRAY. Mr. Bragg, will you give us your full name, please?

Mr. BRAGG. Thomas E. Bragg.

Mr. GRAY. And you live where?

Mr. BRAGG. I have an apartment at 912 Fifth Avenue, New York.

Mr. GRAY. And what is your business?

Mr. BRAGG. I have no business except speculating.

Mr. GRAY. You are not a broker?

Mr. BRAGG. No, sir.

Mr. GRAY. You are not a member of the New York Stock Exchange?

Mr. BRAGG. No, sir.

Mr. GRAY. Have you ever been?

Mr. BRAGG. I was a member of a firm at one time.

Mr. GRAY. And what firm is that?

Mr. BRAGG. W. E. Hutton & Co.

Mr. GRAY. W. E. Hutton & Co. And when were you a member of the firm of W. E. Hutton & Co.?

Mr. BRAGG. 1928 until October, 1930.

Mr. GRAY. Until October of 1930, and since then you have been operating either on your own account or with others?

Mr. BRAGG. Yes, sir.

Mr. GRAY. While you were a member of the firm of W. E. Hutton & Co., who are members of the Stock Exchange in New York, did you operate on your own account and in your own name?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is individually?

Mr. BRAGG. Individually.

Mr. GRAY. Did your firm of W. E. Hutton & Co. also operate on their own account as a firm?

Mr. BRAGG. Well, they have investment business which is handled in the office at Cincinnati.

Mr. GRAY. Just what do you mean by an investment business with respect to the matter about which I asked; that they are simply investing funds in stock that they hold permanently?

Mr. BRAGG. Yes, sir; not permanently, but they hold for some time. They took positions in companies that are more or less local.



Mr. GRAY. In other words, by an investment business, however, you mean that their positions were more permanent than those who just simply traded in and out every day or when they thought there was an advantage in either a rise or fall of the market; is that it?

Mr. BRAGG. Exactly. Not an operating account. It is an investment.

Mr. GRAY. But it is not as active an account as your account individually?

Mr. BRAGG. No; I would not say it was an inactive account. Positions were held for years.

Mr. GRAY. Positions were held for years?

Mr. BRAGG. Yes.

Senator COUZENS. Mr. Chairman, I wish to enter a protest against these photographers taking pictures while the witness is testifying. If they want to take pictures they may ask for permission to do so. It is objectionable and obnoxious.

The CHAIRMAN. The point is well taken. They will have to ask for permission when they want to take pictures, and we will try to arrange it for them.

Mr. GRAY. Prior to the time that you connected yourself with W. E. Hutton & Co., Mr. Bragg, I mean immediately prior, were you with any other firm or what were you doing?

Mr. BRAGG. I was with the American International Corporation.

Mr. GRAY. For how long, a number of years?

Mr. BRAGG. About 10 years.

Mr. GRAY. And about when in your career did you first start to speculate on your own account?

Mr. BRAGG. About 1920 or just prior to that, 1918 or 1919.

Mr. GRAY. May I say to you that it is doubtful whether or not in the limited time we will be able to complete an examination of you to-day. Can you and will you for a future time for the benefit of this committee compile your trading activities for a period of, say—you went with Hutton in 1928—for a period, we will say, since the 1st of January, 1927, to date?

Mr. BRAGG. I need some time on that. I have no office and have not had an office.

Mr. GRAY. How long will it take you to do it?

Mr. BRAGG. I don't know exactly.

Mr. GRAY. You have records, however?

Mr. BRAGG. Yes; I have records some place. I would have to work them up myself or—

Mr. GRAY (interposing). You can very easily, could you not, however, give us your records of your transactions during the time that you were with W. E. Hutton & Co. and since that time? That would be a simpler matter, if I do not ask it back to 1927?

Mr. BRAGG. Yes.

Mr. GRAY. I think that would answer the purpose. Do your records show also not only your individual operations but your operations with others where you have conducted either a syndicate or a pool, whichever name you choose to give it, on either side of the market or on both sides, who your associates were and in what name or names you traded?

Mr. BRAGG. I do not know as I personally have all those records, but I have some.

Mr. GRAY. If some other individual kept those records you would know the individual who did keep those records of those pools or syndicates?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you can get that data from him so as to give us a complete picture of your operations either as an individual or in association with others?

Mr. BRAGG. Yes.

Mr. GRAY. And you will do that for us?

Mr. BRAGG. Yes, indeed.

Mr. GRAY. Can you tell us, generally speaking, whether your individual operations since the time that you associated yourself with W. E. Hutton & Co. have been more prominently on the long or the short side of the market?

Mr. BRAGG. Well, during the up part of the market they were on the long side.

Mr. GRAY. Yes.

Mr. BRAGG. Since that time they have been principally on the down side.

Mr. GRAY. Now, though we have had statements quite frequently when that up side was, you mean by that, do you not, that you individually and in the pools in which you were interested maintained a long position until some time probably in the fall of 1929; is that correct?

Mr. BRAGG. Well, in the summer of 1929.

Mr. GRAY. And, of course, with the slight up and down movements of the markets since about January, 1930, you have been in and out?

Mr. BRAGG. Yes; I have been long.

Mr. GRAY. But, generally speaking, you and your associates kept a long position until some time in the latter part of the summer of 1929?

Mr. BRAGG. I did.

Mr. GRAY. You did. We will speak of you alone then for a moment. When did you begin to assume a definitely large short position in the market after that time?

Mr. BRAGG. Well, I assumed a short position. I don't know whether you consider it large or not.

Mr. GRAY. When did you begin to establish that position?

Mr. BRAGG. September, 1929.

Mr. GRAY. That was because in your judgment, I suppose, prices had reached what you thought was going to be their peak, temporarily at least?

Mr. BRAGG. Well, I thought so; yes.

Mr. GRAY. And that short position, I suppose, became quite heavy after the break came in the market in the fall of 1929?

Mr. BRAGG. No; I do not think at any time it became very heavy.

Mr. GRAY. You mean your individual position?

Mr. BRAGG. Yes.

Senator COUZENS. May I ask the witness to answer instead of nodding his head? You can not get a nod of the head up to the reporters, nor can you get it in the record.

Mr. GRAY. And speak a little louder, if you can, Mr. Bragg. Have you ever individually had a long position since the 1st of January, 1930?

Mr. BRAGG. Yes.

Mr. GRAY. In just some specific stocks?

Mr. BRAGG. Yes.

Mr. GRAY. Generally speaking your position has been a short one since that time?

Mr. BRAGG. Yes.

Mr. GRAY. Are you long or short of the market now?

Mr. BRAGG. I am short of the market, long a very small amount of stock.

Mr. GRAY. Long on a very small amount of stocks?

Mr. BRAGG. Yes.

Mr. GRAY. And short generally speaking?

Mr. BRAGG. Not to a large amount now.

Mr. GRAY. You have covered a great deal this year?

Mr. BRAGG. No; I do not think I have ever had a large position to cover.

Mr. GRAY. That is individually?

Mr. BRAGG. Individually.

Mr. GRAY. Senator Norbeck asks what you mean by "large" and I will answer that question, if you please, by asking you since January, 1930, what has been your individually largest short position?

Mr. BRAGG. Say 50,000 shares.

Mr. GRAY. Fifty thousand shares. That is on your own account?

Mr. BRAGG. Yes, sir.

Mr. GRAY. How many shares are you short of now?

Mr. BRAGG. Twelve or fifteen thousand.

Mr. GRAY. How many shares were you approximately short of the 1st of January, 1932?

Mr. BRAGG. I would just have to guess on that.

Mr. GRAY. Well, give us your estimate. Give us your thought approximately on it.

Mr. BRAGG. Twenty or twenty-five thousand.

The CHAIRMAN. You can get us that definite information.

Mr. GRAY. Yes. I am purposely, unless the committee desires that to be done, not going into details, because he will give us the information on what you want, because of the limited time that you have this morning. Of course, I can do it, but it will take a great length of time.

Senator FLETCHER. You are operating now, still in the business buying and selling and trading in the market?

Mr. BRAGG. Yes, sir.

Senator FLETCHER. Right up to date?

Mr. BRAGG. Yes, sir.

Senator FLETCHER. Do you know what happened in April—April the 6th and 8th? Were you long then or short?

Mr. BRAGG. Short, sir.

Senator FLETCHER. What happened when a million three hundred thousand shares were disposed of two days prior to April the 8th? Were you in on that?

Mr. BRAGG. I do not recall just the circumstances.

Senator FLETCHER. You remember there was considerable short covering at that time?

Mr. BRAGG. No; I do not.

Mr. GRAY. In other words, Senator Fletcher is directing your attention to the fact that during those few days there was a very large—now, I am not sure, Senator, because I have never seen the statistics between April the 6th and April the 8th, I have no comparative figures on that—whether you mean that there was a large short interest added to the market or whether there was a covering. I do not know. I may be wrong when I suggest that amendment.

Senator FLETCHER. A million three hundred thousand shares.

Mr. GRAY. Covered?

Senator FLETCHER. Yes. Shorts covered approximately that amount, I think the record will show.

Mr. GRAY. Did you cover any large proportions of your stocks between those two dates?

Mr. BRAGG. No, sir.

Senator COUZENS. May I ask the witness if he will relate his association with Mr. Rockefeller in the pool of the Lima Locomotive, for example?

Mr. GRAY. I was going to ask him as to who for the record so that they would get in the record, with whom he was associated in the different pools and what they were. But since Senator Couzens asks you to relate your association with Mr. Percy Rockefeller in connection with the Lima Locomotive pool, just give us that.

Mr. BRAGG. Mr. Rockefeller and Mr. Smith, Mr. B. E. Smith, and I had a joint account, I would call it, rather than a syndicate, in Lima Locomotive. That is, we bought, I think, three or four thousand shares of Lima Locomotive probably some time in 1928.

Senator COUZENS. At what price?

Mr. BRAGG. I do not just remember the price. I do remember that we lost some money in that account and the account was closed.

Senator COUZENS. When was it closed?

Mr. BRAGG. Oh, probably six or seven months after that.

Senator COUZENS. Did you operate in any other stocks?

Mr. GRAY. Try and keep your voice up. We can not hear you. Just face the reporter and then everybody can hear.

Mr. BRAGG. Six or seven months after that.

Senator COUZENS. During that time did you operate in any other stocks besides Lima Locomotive?

Mr. BRAGG. But it was a very small account, and there was very little activity in the account. Principally to buy this Lima Locomotive stock, which we subsequently sold at a loss.

Senator COUZENS. Who organized the syndicate?

Mr. BRAGG. Well, just Mr. Rockefeller, Mr. Smith, and myself.

Senator COUZENS. Well, there must have been an originator and a promoter. Who was it?

Mr. BRAGG. Well, I don't know that there was a promoter to it. I think we were three together, and Mr. Rockefeller suggested that Lima Locomotive might be a good stock to buy, and we formed a joint account to purchase it.

Senator COUZENS. So in effect Mr. Rockefeller was the promoter of this syndicate?

Mr. BRAGG. Well, it may be that one of us suggested that we form the account. I can not just recall that, Senator.

Senator COUZENS. You know perfectly well who suggested this syndicate, and I want you to tell the committee. You remember, you are under oath.

Mr. BRAGG. Yes, sir.

Senator COUZENS. Well, who suggested this syndicate?

Mr. BRAGG. It may have been either Mr. Smith or I, I don't know. Mr. Rockefeller suggested the stock.

Senator COUZENS. You mean until the stock was suggested there was a syndicate organized prior to the picking of a particular stock?

Mr. BRAGG. No, sir.

Senator COUZENS. Then in effect Mr. Rockefeller did start the syndicate and suggested the purchase of Lima Locomotive stock?

Mr. BRAGG. He suggested the purchase of Lima Locomotive stock.

Senator COUZENS. To what extent did he suggest it?

Mr. BRAGG. Well, he thought that Lima Locomotive might be a good stock to purchase.

Senator COUZENS. And he was a director of the National City Bank?

Mr. BRAGG. Yes, sir.

Senator COUZENS. And did the National City Bank have any account with the Lima Locomotive?

Mr. BRAGG. I don't know that, sir.

Senator COUZENS. I assume he would know. Did you ask him?

Mr. BRAGG. No, sir.

Senator COUZENS. Were the relations of the National City Bank with the Lima Locomotive discussed?

Mr. BRAGG. No, sir.

Senator COUZENS. What did Mr. Rockefeller say when he suggested that you engage in operations on the Lima Locomotive stock?

Mr. BRAGG. He said, as I recall, that the Lima Locomotive had quick assets of such an amount that he thought the stock would be an excellent purchase.

Senator COUZENS. And then after you purchased the stock, what did you contemplate doing?

Mr. BRAGG. We contemplated holding the stock. We never speculated. That is, we never manipulated in this stock.

Senator COUZENS. What made you sell out?

Mr. BRAGG. Well, I finally decided that we had a loss in the account and that the stock was not such an excellent purchase.

Senator COUZENS. In other words, you decided that?

Mr. BRAGG. Yes, sir.

Senator COUZENS. So you were the manager of the syndicate?

Mr. BRAGG. Well, I think it was a joint account, as I would call, not a syndicate. There was no manager, but there were three jointly. Each put in an equal amount of money.

Senator COUZENS. How much?

Mr. BRAGG. I think \$50,000 each.

Senator COUZENS. And how many shares did they buy?

Mr. BRAGG. Well, we only bought three or four thousand shares. The stock was selling at around 30 at that time. That would be \$120,000, the total purchase price.

Senator COUZENS. So you did not use the whole \$150,000?

Mr. BRAGG. No, sir.

Senator COUZENS. But you put in \$30,000 or \$40,000 apiece?

Mr. BRAGG. I think we each put in fifty thousand.

Senator COUZENS. What did you do with the stock above the purchase of the Lima Locomotive?

Mr. BRAGG. I did not quite—

Senator COUZENS. What did you do with the money that you put in the pool in excess of what was required to purchase the Lima Locomotive?

Mr. BRAGG. It was in the account.

Senator COUZENS. What did you do with it in the account?

Mr. BRAGG. Didn't do anything with it.

Senator COUZENS. It just lay there?

Mr. BRAGG. Yes.

Senator COUZENS. What did you do with it when the syndicate was dissolved?

Mr. BRAGG. This would be guessing. I think we lost about \$20,000 each.

Senator COUZENS. About \$20,000 each?

Mr. BRAGG. I think so.

Senator COUZENS. Did you organize any more syndicates or pools with Mr. Rockefeller after that date?

Mr. BRAGG. Not exactly with him. He was in one of the pools.

Senator COUZENS. Tell us about that.

Mr. BRAGG. Well, there was a pool on Anaconda. I think there were two pools in Anaconda.

Senator COUZENS. To what extent were these pools in Anaconda?

Mr. BRAGG. That was a large pool.

Senator COUZENS. How big?

Mr. BRAGG. I forget the exact amount of money put in. There was at one time a holding of, I think, 190,000 shares of stock.

Senator COUZENS. What value?

Mr. BRAGG. The stock was purchased probably at an average of \$170 a share.

Senator COUZENS. So in the aggregate that was how much?

Mr. BRAGG. Well, one hundred and ninety times 170. These figures are approximate. They are just guesses.

Senator COUZENS. How much money did you put in the pool then or the syndicate?

Mr. BRAGG. I think, or rather my wife did, a half million dollars.

Senator COUZENS. How much did Mr. Rockefeller put in?

Mr. BRAGG. Oh, much less than that. I think a hundred or two hundred thousand.

Senator COUZENS. Was Mr. Bernard Smith in that syndicate?

Mr. BRAGG. Yes, sir.

Senator COUZENS. How much did he put in?

Mr. BRAGG. I would say about a half a million dollars.

Senator COUZENS. How many others were joined in the syndicate with the three men you have just mentioned?

Mr. BRAGG. Oh, there were 10 or 12 in that pool.

Senator COUZENS. Who were they?

Mr. BRAGG. Mr. M. J. Meehan.

Senator COUZENS. His name appears quite prominently, does it not?

Mr. BRAGG. Yes, sir.

Senator COUZENS. And who else?

MR. BRAGG. Mr. John J. Raskob, I think was in that pool.

Senator COUZENS. And who besides Mr. Raskob and Mr. Meehan?

MR. BRAGG. I think Mr. W. A. Kenny.

Senator COUZENS. Go ahead.

MR. BRAGG. Mr. P. A. Rockefeller. I think Mr. Fred Fisher was in that one.

Senator COUZENS. Go ahead.

MR. BRAGG. I am trying to remember them.

Senator COUZENS. Yes.

MR. BRAGG. There were some others, I think, but I am not definitely sure, and I would rather not put the names in until I check the records.

Senator COUZENS. Can't you get the names of the others?

MR. BRAGG. Oh, yes. Yes, sir.

Senator COUZENS. Is that pool still in existence?

MR. BRAGG. No, sir.

Senator COUZENS. Who was the manager of that pool?

MR. BRAGG. I think I was one of the managers.

Senator COUZENS. And how did you come out?

MR. BRAGG. I, or rather my wife, lost about \$400,000.

Senator COUZENS. And I suppose that relation applied to all the others who participated in the pool?

MR. BRAGG. Yes; at the same ratio.

Senator COUZENS. And how long did the pool last?

MR. BRAGG. Although others may have lost more, because that pool was closed by the distribution of the stock.

Senator COUZENS. By what?

MR. BRAGG. The distribution of the stock.

Senator COUZENS. Then how many shares did you get as part of the distribution?

MR. BRAGG. I don't remember that. I think there was distributed around eighty or ninety thousand shares. I immediately sold mine, or rather my wife's.

Senator COUZENS. And if you had held on you would have lost more, I assume?

MR. BRAGG. Would have lost quite a lot more.

Senator FLETCHER. What did you get for it?

MR. BRAGG. I think around ninety to a hundred dollars a share.

Senator FLETCHER. Then it went down to where there was no bid at all and nobody wanting it and you divided the stock?

MR. BRAGG. No. No; we divided the stock, we distributed the pool; by distributing the stock to the individuals pro rata, the amount of their interest in the pool. Now, what the individuals did with their stock after they got it, I do not know, except what I did with my wife's. I sold hers.

Senator FLETCHER. How long did that pool last? How long was it in existence?

MR. BRAGG. Three or four months.

Senator COUZENS. Who organized the pool?

MR. BRAGG. Why, I do not know who exactly organized it. At the time I was in Florida sick the pool was formed.

Senator COUZENS. And you were invited in?

MR. BRAGG. Yes, sir.

Senator COUZENS. By whom?

Mr. BRAGG. By Mr. Meehan and Mr. Smith.

Senator COUZENS. And you do not know who the promoter was?

Mr. BRAGG. Well, I think that Mr. Meehan and Mr. Smith possibly were the originators of the pool.

Senator COUZENS. What representations were held out to invite people to join in the pool?

Mr. BRAGG. Possible profit.

Senator COUZENS. Possible profit, but how was it to be accomplished? That is what I am trying to get at.

Mr. BRAGG. Well, they apparently thought the stock was going up and they had accumulated by purchasing this amount of stock and selling it at an advanced price.

Senator COUZENS. When you went in the pool did you investigate the value of the stock?

Mr. BRAGG. No. I investigated it afterwards.

Senator COUZENS. Was that the general policy that was adopted by your colleagues in the pool?

Mr. BRAGG. No; I do not think so. Generally at that time, in the inflationary market, I do not think many people investigated anything.

Senator COUZENS. Well, after your experience of purchasing and then investigating, what did you determine the value of the stock to have been?

Mr. BRAGG. I rather thought the stock was too high.

Senator COUZENS. You discovered that after you sold out?

Mr. BRAGG. No; after the stock was bought in the pool.

Senator COUZENS. Then you discovered that you had paid too high a price?

Mr. BRAGG. I thought so; yes.

Senator COUZENS. How much too high?

Mr. BRAGG. Well, I thought it was considerably high.

Senator COUZENS. What do you mean by "considerably"?

Mr. BRAGG. Well, I thought with the earnings of that company based on the copper business as it usually happens, the price of the metal was very high at that time, I thought the stock was very much overpriced.

Senator COUZENS. What was the earning of the stock when you invested \$400,000 in a pool? What was the stock earning?

Senator GLASS. Invested \$500,000.

Senator FLETCHER. A half million.

Mr. BRAGG. I do not recall the earnings at that time, but the earnings, if I remember it, were projected on a 24-cent price of copper.

Senator COUZENS. And then how soon did copper go down after that?

Mr. BRAGG. Very shortly after that the price broke to 18 cents.

Senator COUZENS. And that 6-cent per pound drop in the price of copper, to what extent did it affect the market price of the stock?

Mr. BRAGG. The stock sold from 174, I think, down to around a hundred.

Senator COUZENS. At a hundred, what return would the earnings of the company make?

Mr. BRAGG. I think the Anaconda paid \$6 at that time.

Senator COUZENS. You do not recall who organized this pool?



Mr. BRAGG. No, not exactly. As I say, I was in Florida sick at that time.

Senator COUZENS. Mr. Rockefeller was one of the early parties to join the pool?

Mr. BRAGG. Well, I shouldn't exactly say that, as I was not there.

Senator COUZENS. Do you know whether the Anaconda Co. are depositors with the National City Co.?

Mr. BRAGG. I think they are—National City Bank.

Senator COUZENS. National City Bank, I should have said.

Mr. BRAGG. Yes, sir; I think they are.

Senator COUZENS. And do you know whether the Anaconda Co. was borrowing at that time?

Mr. BRAGG. I do not think they were borrowing at that time.

Senator COUZENS. But they have had to borrow since?

Mr. BRAGG. Yes, sir.

Senator COUZENS. When did you first meet Mr. Rockefeller?

Mr. BRAGG. I think in 1919.

Senator COUZENS. Just how did it come about?

Mr. BRAGG. I think the first time I met him he visited a plant at which I was employed.

Senator COUZENS. What doing?

Mr. BRAGG. I was secretary.

Senator COUZENS. What plant?

Mr. BRAGG. American International Shipbuilding Corporation at Philadelphia.

Senator COUZENS. And he was a director?

Mr. BRAGG. He was a director of the parent company, the American International Corporation.

Senator COUZENS. That is when you first met him?

Mr. BRAGG. Yes, sir.

Senator COUZENS. And have you known him continuously since that time?

Mr. BRAGG. Yes, sir.

Senator COUZENS. And during all that time, how many pools have you been in with him? You have mentioned Anaconda. We know about Anaconda and we know about the Lima Locomotive. Any others?

Mr. BRAGG. Yes; I think he was in—well, I am not sure. I would rather not say. I think he was in a couple of more pools. I think he was in a pool—I am not definite enough to say this.

Senator COUZENS. Did you keep any books all the time that these transactions in pools were being organized?

Mr. BRAGG. No, sir.

Senator COUZENS. How did you make your income-tax returns to the Federal Government if you did not keep the books?

Mr. BRAGG. By supplying all the brokers' statements to a clerk in the office to work them up.

Senator COUZENS. And so the clerk in the office made up your income-tax returns and did it from the brokers' records rather than your own?

Mr. BRAGG. Brokers' records and bank statements and all the papers I had.

Senator COUZENS. And how long have you been operating on the market? You say since nineteen when?

Mr. BRAGG. 1918 or '19.

Senator COUZENS. So during that 13 or 14 years have your operations been profitable?

Mr. BRAGG. Yes; I think so.

Senator COUZENS. Substantially so, I suppose, that you have paid an income tax to the Government all during each of these years?

Mr. BRAGG. Yes, sir.

Senator COUZENS. That is all I desire, Mr. Chairman.

Mr. GRAY. I want to see that I have got your figures on Anaconda correct. That stock cost you an average of \$170 a share?

Mr. BRAGG. One hundred and sixty or 170, I think.

Mr. GRAY. And it was paying a dividend of \$6 a share?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you had 190,000 shares?

Mr. BRAGG. I think at one time we had 190,000 shares.

Mr. GRAY. Then you had over \$32,000,000 invested in that pool; to be exact, with 190,000 at \$170 a share, on an average, gives you \$32,300,000. Is that correct?

Mr. BRAGG. Yes, sir; I assume so.

Mr. GRAY. How much did you put into that pool?

Mr. BRAGG. I will say about a half a million dollars.

Mr. GRAY. About a half a million dollars?

Mr. BRAGG. Yes, sir.

Mr. GRAY. There were a number of others that put a larger amount into the pool?

Mr. BRAGG. No; I do not think so.

Mr. GRAY. Were you buying on a margin?

Mr. BRAGG. Yes, sir; borrowing from the bank.

Mr. GRAY. Tell me why you and your associates, supposedly wise in the stock market, paid \$170 a share on an average for Anaconda, paying \$6 a share dividend, with copper then at 24 cents a pound, if you did not anticipate your ability to in some manner aside from the natural movement put that stock up?

Mr. BRAGG. Well, if copper continued at 24 cents a pound, the Anaconda earnings would have been very much larger.

Mr. GRAY. What investigation did your pool make to determine whether it was probable or likely that the demand for copper and the range of prices of copper was going to cause it to continue at 24 cents or either increase in price, any?

Mr. BRAGG. I don't know. I was not there at that time, sir.

Mr. GRAY. As a matter of fact, are not such pools formed, and wasn't that pool in Anaconda formed, because you hoped to be able to so manipulate the market as to make a profit?

Mr. BRAGG. Well, all these pools are formed to make a profit if possible.

Mr. GRAY. You evade my question. Of course, no man goes into a pool and invests his money, whether it is on the long or the short side, that does not expect to make a profit. My question was whether or not, under the conditions as I have described them to you, your pool did not anticipate making a profit because of your ability to manipulate the market.

Mr. BRAGG. Well, I don't—on all these things that I have seen on the stock exchange, this manipulating the market does not work out so well.

Mr. GRAY. Then you know how they are manipulated and you know whether they work out well or not. Now tell us how they are manipulated first.

Mr. BRAGG. Well, form a buying account of stocks, and presumably based on some knowledge of the company earnings and future prospects of the company.

Mr. GRAY. That is what every investor does. We are not concerned with that. We are concerned with the matter of what you do in the way of manipulating the market. You have answered me that these manipulations of the market do not always work out well. Tell me how the manipulations take place. That is what we are anxious to know from somebody like yourself that is experienced.

Mr. BRAGG. Well, I do not know just how to describe to you what you mean by "manipulation."

Mr. GRAY. What do you mean by it?

Mr. BRAGG. The only way that I see is to buy a certain number of shares of stock and probably, if there is a demand for that stock, you have a large amount of it, you have probably the floating supply of it, I mean what is generally around—

Mr. GRAY (interposing). In other words, your first effort is to control the floating supply?

Mr. BRAGG. Buy the stock that is available in the market, within a certain range.

Mr. GRAY. Well, you do not just sit quietly down after you buy the stock and wait for it to rise under natural circumstances, do you? What do you do? What is this manipulation?

Mr. BRAGG. Well, I do not know that there is much that they do do. Just buy the stock and if the stock goes up, you sell it on a scale up sometimes, or you wait and try to sell it all at the top price.

Mr. GRAY. Mr. Bragg, I would like you to be a little frank with this committee. This committee, I do not believe, would for a moment consider that you and others would handle \$32,000,000 of a stock, Anaconda, at a price that you have indicated and under these circumstances, just sit down quietly and wait naturally for it to rise. What do you do to make the market so that you can sell that stock? That is what we want to know.

Senator COUZENS. While you are thinking about an answer, maybe you can tell us what year this was. I think I forgot to ask you what year this pool was formed.

Mr. BRAGG. I think it was early in 1929.

Senator COUZENS. Early in 1929?

Mr. BRAGG. Yes, sir; January or February.

Senator COUZENS. Did I ask you who the manager of that pool was before?

Mr. BRAGG. Yes, sir.

Senator COUZENS. Who was it?

Mr. BRAGG. I was one of the managers of it.

Senator COUZENS. Although you were in Florida?

Mr. BRAGG. Yes, sir.

Senator COUZENS. When did the pool close?

Mr. BRAGG. About six months afterwards.

Senator COUZENS. Now, you may answer the counsel for the committee.

Mr. GRAY. You have had time to think, Mr. Bragg?

Mr. BRAGG. Yes, sir.

Mr. GRAY. I am sorry you had it, but you had it. Tell us about it.

Mr. BRAGG. I do not know just how to explain to you, because I—

Mr. GRAY (interposing). Just by telling us the truth, that is all.

Mr. BRAGG. I will be glad to tell you all I know, and certainly the truth.

Mr. GRAY. Yes, please. But if you are going to describe it first, please describe it truthfully to us and tell it to us all in detail.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Don't hedge on it.

Mr. BRAGG. This pool was formed, the account, with these individuals in it. I think there were 10 or 12. This stock was bought and it was bought up at the high of the market, probably at 174. Then nothing happened. The market went down. And when I came back from Florida I sold it, forty or fifty thousand shares of stock.

Mr. GRAY. Individually?

Mr. BRAGG. No; for the pool.

Mr. GRAY. Yes.

Mr. BRAGG. At around 160. Then I think when I got to New York I sold some more.

Mr. GRAY. Does it dawn on you what I am trying to find out?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Then tell me what I am trying to find out. I don't want to know whether or not you came back from Florida and saw the stock down and thought you ought to sell forty or fifty thousand shares. Whether you did anything or not, I want to know what you had in contemplation when you permitted a pool to buy 190,000 shares of Anaconda Copper at an average of 170 under the conditions that Anaconda Copper was at that time. What did you contemplate doing so as to be able to definitely make a profit in that stock? You did not contemplate just sitting down and watching it go one way or the other?

Mr. BRAGG. Well, I was in Florida at that time.

Mr. GRAY. I know.

Mr. BRAGG. I didn't do anything about it.

Mr. GRAY. Who did? Who did that part of the work, then?

Mr. BRAGG. The buying of the stock?

Mr. GRAY. No, no; the manipulation in order to make the profit.

Mr. BRAGG. I do not think there was any manipulation.

Mr. GRAY. You do not think so?

Mr. BRAGG. No, sir.

Mr. GRAY. You are not willing to tell us the detail?

Mr. BRAGG. I am willing to tell you exactly all the details.

Mr. GRAY. Why did it take so long to think about it, then, when I asked you the question if there was nothing else but a pool sitting there and watching the market move one way or the other?

Mr. BRAGG. I was thinking to answer your question truthfully and give you the details.

Mr. GRAY. You were?

Mr. BRAGG. Yes, sir.

Mr. GRAY. In other words, knowing that you did not do anything except sit there and watch that stock go one way or the other, and seeing it go down, sold, you had to think in order to answer my question truthfully? Do you say that?

Senator GLASS. Mr. Chairman, I protest against bullyragging the witness in that way.

Mr. GRAY. Well, Senator—pardon me.

Senator GLASS. I think we can get the truth out of a witness without that sort of thing. I think that transcends the proprieties, and I am as anxious to have the truth as the counsel of this committee is, or any member of the committee is.

Mr. GRAY. I can only say to you, Senator, that, having had information generally as to the manner in which these pools are manipulated, and the circumstances under which this witness has testified that this purchase of Anaconda was made, it seems remarkable to me that they would sit to one side and do nothing, and therefore I am inquiring for the purpose of trying to get what I believe are the facts for this committee. If the committee does not want it done that way I do not care.

Senator GLASS. I think, myself, that it is ridiculous to say that a pool in excess of \$30,000,000 was formed with the intention of just sitting down and doing nothing about it. But I do not think you will extract the truth from him by that method of interrogation.

Mr. GRAY. Possibly not, Senator; but in 35 years of experience I have found that some witnesses have to be treated one way and some another.

Senator GLASS. Yes; I know you lawyers do that; yes.

Mr. GRAY. Sometimes we can get it, and sometimes we can not. We are not always successful. But if the committee does not approve of that method, I will have to, of course——

Senator GLASS (interposing). Well, I am not the committee.

Mr. GRAY. I understand that. I will have to consider the varying elements on the committee to try to satisfy them all. It may be a little difficult, but I am doing the best I can under the circumstances.

Senator GLASS. I think you are doing pretty well, except I think you are going rather far with that.

Mr. GRAY. If, Mr. Bragg, the situation was such that you have detailed it to us, and you can not tell us anything to the contrary at the moment, you will have an opportunity to present it in full at a future time.

Senator FLETCHER. You never got what he did.

Mr. GRAY. He says they didn't do anything.

Senator FLETCHER. He has tried two or three times to tell and you interrupt him.

Mr. GRAY. I will let you take your time and tell this committee what you have to tell them about what you did.

Mr. BRAGG. This stock was bought, as I tell you, Mr. Gray, and was bought at a price of, I would say, \$174, within a point or so of the top of this market in this particular stock. That is all that happened in the stock. The stock started going down then.

Senator GLASS. Was it not your expectation, the expectation of your pool, when they put \$30,000,000 into it, the very fact that you did buy \$30,000,000 worth of stock would make an impression on the market and raise the price of it?

Mr. BRAGG. Well, I think in that particular instance, Senator, the buying of this stock did put the market up. That is what happened.

Senator GLASS. Yes. That was your purpose in buying it, was it not?

Mr. BRAGG. No; the purpose in buying it was to sell it at a profit.

Senator GLASS. Well, the only way to sell it at a profit would be to put the market up, would it not?

Mr. BRAGG. Yes; the market would have to go up higher than you bought it to be able to sell it at a profit.

Senator COUZENS. How high did it go up after you purchased it?

Mr. BRAGG. I think, as I just said, Senator, that was about within a point of the top of the market in that particular stock.

Senator COUZENS. At any time?

Mr. BRAGG. Yes, sir.

Senator FLETCHER. Then you said you sold some of it afterwards. You came back. You did not simply hold it there. You came to New York and then you sold forty or fifty thousand shares. That is the first transaction?

Mr. BRAGG. Yes, sir.

Senator FLETCHER. What else did you do?

Mr. BRAGG. Then I sold some more of it around 130 or 135.

Senator FLETCHER. You never bought any more?

Mr. BRAGG. I think at one time I bought some at 130 and sold it at 135, and then I think I turned around and sold thirty or forty thousand shares for around 130 or 135. And then the balance of it was distributed when the market at that time was about \$90 a share, 90 or a hundred dollars a share.

Senator FLETCHER. You went in and out of the market from time to time buying and selling occasionally?

Mr. BRAGG. I think very occasionally in that stock. There was about one trade made on it.

Senator FLETCHER. Did you make any outside effort to advertise it or boost it in any way?

Mr. BRAGG. No, sir; I don't think in that stock there was much—you see, at that time I was in Florida about three months and my part of that business was to come back and sell it.

Mr. GRAY. Now, Mr. Bragg, that was in 1929, was it not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. You know that certain banks in the city of New York have affiliated companies that handle stock transactions, do you not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you have been asked about the National City Bank?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you know that the National City Bank has affiliated companies?

Mr. BRAGG. Has the National City Co.; yes, sir.

Mr. GRAY. I ask you whether or not you don't know and whether it was not a part of your operations that at the time that you were dealing in Anaconda in this way the affiliated company of the National City Bank, in cooperation with your pool, was selling short?

Mr. BRAGG. No, sir; I didn't know that.

Mr. GRAY. Didn't know that?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know the position that the affiliate of the National City Bank in New York was taking with respect to Anaconda stock at the time that you were in the market with this pool?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know that it was selling and buying Anaconda?

Mr. BRAGG. No; I do not know that.

Senator GLASS. Do you know that one or more of the officials of the National City Co., if not the National City Bank, were sending out letters boosting Anaconda stock?

Mr. BRAGG. This was after this pool—I think what you are referring to was after this pool was dissolved.

Senator GLASS. But that happened, did it not?

Mr. BRAGG. Yes, sir; I understand it did.

Senator GLASS. What do you know about it?

Mr. BRAGG. I don't know much about it, Senator. I haven't any relations with the National City Bank or the National City Co. I read a book about it, and that is about all I know about it.

Mr. GRAY. Now, Mr. Bragg, because of the fact that we have got such limited time, I want you to answer me just three or four brief questions first. Your pool in Lima Locomotive continued to operate in other stocks, did it not?

Mr. BRAGG. Yes; as I recall, it bought maybe a thousand or two thousand shares.

Mr. GRAY. Have you named all of the pools that you have been in that you can recall, you and Mr. Smith and Mr. Rockefeller, irrespective of whether others were in with you?

Mr. BRAGG. I am not sure of that. As I said, I think——

Mr. GRAY (interposing). Were you three in Alaska Juneau?

Mr. BRAGG. No, sir.

Mr. GRAY. You were not?

Mr. BRAGG. No, sir.

Mr. GRAY. Well, in fairness, I want to say to you that Mr. Rockefeller testified yesterday that you were. That is my recollection. If I am wrong, why, I will correct myself by looking at the record.

Mr. BRAGG. You mean in a joint account or syndicate?

Mr. GRAY. Well, joint account or syndicate.

Mr. BRAGG. No, sir.

Mr. GRAY. You were not in Alaska Juneau at all?

Mr. BRAGG. I have some of my own Alaska Juneau stock.

Mr. GRAY. Not with others?

Mr. BRAGG. No, sir.

Mr. GRAY. By the way, who was the specialist in Anaconda at the time your pool was operating, do you know?

Mr. BRAGG. No; I do not.

Mr. GRAY. You do not know who was the specialist in Alaska Juneau?

Mr. BRAGG. I think a man named Stuyvesant Fish was a specialist in Alaska Juneau?

Mr. GRAY. Was Smith a specialist in Alaska Juneau?

Mr. BRAGG. No, sir

Mr. GRAY. You are positive of that?

Mr. BRAGG. Positive of that.

Mr. GRAY. Tell me what other pools you were in with or without Mr. Rockefeller since you were with Hutton & Co. and since you left.

Mr. BRAGG. There was a pool in Briggs Manufacturing.

Mr. GRAY. I want the names of these pools so that I can instruct him that I want this data when he comes again.

Briggs Manufacturing, who was in that?

Mr. BRAGG. There were 10 or 12 people. I would rather get the names and give it to you.

Mr. GRAY. What other pools?

Mr. BRAGG. The pool in Radio.

Mr. GRAY. Yes. When was that?

Mr. BRAGG. That was in 1930, I think; yes.

Mr. GRAY. More than one pool in Radio you were in?

Mr. BRAGG. I was in one pool and in another account which I would not call a pool. It was a buying account in Radio.

Mr. GRAY. You will give me the names of those that we are to have there. But Meehan and Smith were both with you in that?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Was Meehan the specialist in Radio?

Mr. BRAGG. Yes, sir.

Mr. GRAY. In other words, there was a pool where you were cooperating with one of the members of the pool as a specialist; he was a member of the pool and he was a specialist on the floor in the stock?

Mr. BRAGG. Yes, sir.

Mr. GRAY. All right; what other pools?

Mr. BRAGG. It was a pool of the St. Louis & Southwestern Railroad; a small pool.

Mr. GRAY. Yes. What others? Timken Roller Bearing?

Mr. BRAGG. No, sir; no pool in that.

Mr. GRAY. All right. What else? Case?

Mr. BRAGG. No, sir.

Mr. GRAY. Auburn?

Mr. BRAGG. No, sir.

Mr. GRAY. Now if that is all you can think of at the moment, I will ask you if, as soon as you return to New York, and prior to the time you are called here again, you will send to this committee a memorandum of all the pools you were interested in since you started with W. E. Hutton & Co., and the various members of those pools, and in what they operated.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Will you do that?

Mr. BRAGG. Yes, sir.

Mr. GRAY. So that they can have it before you come here again?

Mr. BRAGG. Yes, sir.

Senator COUZENS. I want to know where those records are now.

Mr. GRAY. One more instruction, Senator before I forget it.



And also the name or names of the brokerage houses through which you operated in those pools.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Now, will you answer Senator Couzen's question as to where those records are now?

Mr. BRAGG. They are in the different offices they operated through.

Senator COUZENS. So we have not any absolute assurance that we will get all the names, because you may get some and not others; and you may forget some and not others? We have no assurance we will get them?

Mr. BRAGG. I will get all I can get.

Senator COUZENS. You mean all that you can find?

Mr. BRAGG. I think I can find them.

Senator COUZENS. There is no record of the operation of these syndicates, or the dissolution of them, or any books of accounts, as I understand it?

Mr. BRAGG. I do not think there is any central place; no, sir.

Senator COUZENS. That is what I am getting at, there is no central place for these records?

Mr. BRAGG. I imagine there are a great many pools in Wall Street.

Senator COUZENS. Now, I am asking about the pools you are interested in. Take the Anaconda; there was a specialist in that?

Mr. BRAGG. Oh, yes; there was a specialist.

Senator COUZENS. But you do not know who it was?

Mr. BRAGG. No, sir.

Senator COUZENS. There is no central point where you can obtain this information, is there?

Mr. BRAGG. I beg your pardon?

Senator COUZENS. There is no central point where you can obtain for the committee a record of all those pools, is there, or any one pool?

Mr. BRAGG. Oh, I could not say in one pool—one pool is in one office, and another pool might have been in another office.

Mr. GRAY. It might have been even in two or three offices?

Mr. BRAGG. Yes; that might be true.

Mr. GRAY. You use just one broker?

Mr. BRAGG. The account is with one broker.

Mr. GRAY. But you use other brokers also?

Mr. BRAGG. We use different brokers in buying.

Mr. GRAY. You use undercover brokers?

Mr. BRAGG. We use other brokers.

Mr. GRAY. W. E. Hutton & Co., with whom you were, were dealing with other smaller brokers, in order to keep the matter from becoming too public?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And they are called undercover brokers, as we understand, when that is done in that way.

I will say to the committee that there are many things I could ask Mr. Bragg but, under the chairman's instructions, I was to ask this witness for the pools he had operated in, and the names of his associates, and then we were to put Mr. Smith on the stand.

The CHAIRMAN. Yes. But just one moment. I want to ask him some questions.

When you were in Florida you telephoned back and forth your instructions?

Mr. BRAGG. Yes, sir.

The CHAIRMAN. Whom did you communicate with?

Mr. BRAGG. Mr. Smith and Meehan.

The CHAIRMAN. And Mr. Rockefeller?

Mr. BRAGG. No, sir.

The CHAIRMAN. You say there were 10 or 12 members in this Anaconda pool?

Mr. BRAGG. Yes, sir.

The CHAIRMAN. What was the price of the metal when you went into this pool?

Mr. BRAGG. I think the price was around 18 or 19 cents.

The CHAIRMAN. And there was a movement on to send the price of the metal up at that time, was there not?

Mr. BRAGG. Yes, sir.

The CHAIRMAN. Was the pool formed to send the price up?

Mr. BRAGG. I am not familiar with a pool for that.

The CHAIRMAN. That is the way it worked?

Mr. BRAGG. Yes; I understood there was a pool to send the price of copper up.

The CHAIRMAN. And that was to send it how high?

Mr. BRAGG. Twenty-four cents.

The CHAIRMAN. Twenty-four cents?

Mr. BRAGG. Yes, sir.

The CHAIRMAN. And the cost of production is how much? Eight cents?

Mr. BRAGG. No; it is higher than that.

The CHAIRMAN. We have testimony before us that it runs 6 or 8 cents.

Mr. BRAGG. It depends on the properties. The South American and the Greene Cananea it runs higher.

The CHAIRMAN. But is this not a fact, that the effort to send the price up to an arbitrary price was one of the things that sent the stock to that figure?

Mr. BRAGG. Yes, sir.

The CHAIRMAN. What was the National City Bank doing, or the National City Co., at that time? Were they unloading?

Mr. BRAGG. I do not know, sir.

Senator GLASS. You do not even suspect?

The CHAIRMAN. Were they recommending the purchase at this high price?

Mr. BRAGG. No; I think that came later.

The CHAIRMAN. When they saw the stock slipping they recommended to the customers buying, did they not?

Mr. BRAGG. I do not know that, sir.

The CHAIRMAN. We have testimony before this committee from the chairman of the board of the bank that they recommended to their customers to buy at 140. That is when it was slipping, was it not?

Mr. BRAGG. I think the price was around 120 at that time.

The CHAIRMAN. What is it now?

Mr. BRAGG. Five. (Laughter.)

The CHAIRMAN. So there was good reason why it was selling, was there not? And is not this a fact, that after the market broke on the metal, the American companies went into foreign countries and bought copper mines?

Mr. BRAGG. Yes—I think that was done before. You mean African mines?

The CHAIRMAN. Yes; and South American mines. They followed afterwards, at least after the operation started? In other words, they are producing with foreign labor at a lower cost and in competition with the markets here.

Mr. BRAGG. Well, the South American properties all produce cheaper than they do here, I think. The labor costs are cheaper than they are here. They are 6 or 7 cents, as against 11 here. The syndicates have been producing it, and the Belgian syndicate.

The CHAIRMAN. So, as a result of this pool in it, and the attempt or trying to peg the price at three or four times the cost, brought on the terrible condition in copper?

Mr. BRAGG. I do not know just what brought it on.

The CHAIRMAN. That will be all at this time. You may consider yourself subject to call.

Mr. BRAGG. Yes, sir.

(The witness was temporarily excused.)

The CHAIRMAN. Mr. Bernard E. Smith.

#### TESTIMONY OF BERNARD E. SMITH, NEW YORK, N. Y.

(The witness was duly sworn by the chairman.)

Mr. GRAY. What is your name?

Mr. SMITH. Bernard E. Smith.

Mr. GRAY. And where do you reside?

Mr. SMITH. New York City.

Mr. GRAY. Where?

Mr. SMITH. 1158 Fifth Avenue.

Mr. GRAY. While I have it fresh in my mind, so far as your operating accounts are concerned, those that you run outside, you are sometimes known as B. Smith; sometimes as B. E. Smith; and sometimes as Bernard E. Smith?

Mr. SMITH. Yes; and sometimes as Ben Smith.

Mr. GRAY. Sometimes as Benny Smith?

Mr. SMITH. Yes, sir.

Mr. GRAY. We will touch that subject a little later.

Senator COUZENS. And what is your real name?

Mr. SMITH. Bernard E. Smith.

Mr. GRAY. At the present time, on account of the limitation of time, I will not go into it.

What is your business?

Mr. SMITH. I am a broker, a member of the stock exchange.

Mr. GRAY. Do you conduct a commission house?

Mr. SMITH. No, sir.

Mr. GRAY. How long have you been a broker and a member of the stock exchange?

Mr. SMITH. Six years.

Mr. GRAY. And your purpose in maintaining a membership on the stock exchange is for the purpose of having facilities to operate,

either for yourself or for any others with whom you might be associated; is that correct?

Mr. SMITH. The purpose was to earn a livelihood.

Mr. GRAY. Yes, sir.

Mr. SMITH. That is the reason I bought the seat.

Mr. GRAY. But, inasmuch as you do not conduct a brokerage house which buys and sells on a commission, I draw the assumption—and please tell me whether I am correct—that you, therefore, maintain a seat for your own operations and that of your associates.

Mr. SMITH. For myself.

Mr. GRAY. And also such pools as you may go into?

Mr. SMITH. Not now. In the past that was so.

Mr. GRAY. In the past that was so?

Mr. SMITH. Yes, sir.

Mr. GRAY. Have you, by the way, ever been a specialist in any stock; and, if so, tell me which one.

Mr. SMITH. I was a specialist in U. S. Realty; Tidewater Association; Savage Arms. I think that is about all.

Mr. GRAY. You are not a specialist in Alaska Juneau?

Mr. SMITH. No, sir.

Mr. GRAY. Nor in radio?

Mr. SMITH. No, sir.

Mr. GRAY. And over what period of time have you been operating in the market for yourself, and for yourself and associates? I mean, does it run back just six years when you have been a member, or run back farther?

Mr. SMITH. My first start in trading on the market was about 1903.

Mr. GRAY. About 1903?

Mr. SMITH. Yes, sir.

Mr. GRAY. It is a fact that you are known as one of the big operators in New York City, is it not? And please do not be modest.

Mr. SMITH. People speak of me as a big operator.

Mr. GRAY. And is it also a fact that you have been known as a big short operator in New York City?

Mr. SMITH. Yes, sir.

Mr. GRAY. And whether you believe the designation to be correct or not, you have also been known as a big bear raider; is that true?

Mr. SMITH. No one has called me a bear raider to my face, and I do not really know what they mean by a raider.

Mr. GRAY. Whether you know what they mean, or whether anyone has ever called you that to your face, you know, by your familiarity with the Street, that you have that reputation, do you not?

Mr. SMITH. I do not know that I have it.

Mr. GRAY. You have heard of it?

Mr. SMITH. I have heard indirectly—

Mr. GRAY. Well, reputation is only what you hear people say about somebody else, and that is the reason I put my question that way.

Now, you will be willing to furnish to this committee—let me ask you first if you can; whether you have available records to furnish to this committee your operations on the market, individually, since you have become a member of the stock exchange for the past six years.

Mr. SMITH. Yes; every transaction.

Mr. GRAY. And will you do so?

Mr. SMITH. I will be very glad to do so.

Mr. GRAY. All right. And you have been interested in a number of pools and syndicates since that time?

Mr. SMITH. Yes, sir.

Mr. GRAY. And you have records available whereby you can give the committee the information as to the operation of those various pools?

Mr. SMITH. I would not have those, but if you——

Mr. GRAY (interposing). They are accessible to you?

Mr. SMITH. They should be available.

Mr. GRAY. Let me ask you a question that was put, I think by Senator Couzens, to Bragg: Is there a centralized record kept of the operations of those different pools, or would you have to go to the different brokers through whom they were conducted, for the purpose of getting that information?

Mr. SMITH. I would think that those records would be in, probably, three or four offices; not more.

Mr. GRAY. Did those syndicates or pools keep records of their own, of their operations?

Mr. SMITH. Yes; they would have to do that. There is a record of every one.

Mr. GRAY. Then they should be in somebody's hands; that is, whoever is in charge of the record part of that pool, some record should be there which would picture that whole pool transaction, would there not?

Mr. SMITH. In those three or four offices, you would get a picture by taking the balance sheets.

Mr. GRAY. Yes; but did you not keep a record of your own, aside from the brokerage offices?

Mr. SMITH. Did I?

Mr. GRAY. You, or whoever it devolves upon.

Mr. SMITH. Well, there should be a record in each office.

Mr. GRAY. You still go away to this "each office." I want to know, this Anaconda pool Mr. Bragg was talking about, whether any member of the pool has a record, irrespective of going back to the individual offices.

Mr. SMITH. I do not know.

Mr. GRAY. You will find out; and if so, get us whatever you can?

Mr. SMITH. Yes, sir.

Senator COUZENS. Do you keep any books?

Mr. SMITH. No, sir; I do not.

Senator COUZENS. And you make out your income tax on the information you can get from the broker, and the elevator man, and the janitor, and so on, do you, each year?

Mr. SMITH. From my checks; yes.

Senator COUZENS. And that is the only record you have of your transactions in the year?

Mr. SMITH. Yes, sir.

Senator COUZENS. And each year you have made an income tax return, since the law was enacted?

Mr. SMITH. Yes.

Senator COUZENS. Is that correct?

Mr. SMITH. Yes, sir.

Mr. GRAY. Why did you not keep books?

Mr. SMITH. Well, I never have.

Mr. GRAY. That is not the question. Why did you not keep books?

Mr. SMITH. I do not see the need for it.

Mr. GRAY. You are involved in a number of transactions which involve vast sums of money and in which, sometimes, you are involved with associates, and in which you are sometimes individually, and do you mean to tell this committee that you have never yet seen the need of keeping any record of your own and these other transactions?

Mr. SMITH. Well, we keep records of these transactions, but that does not necessarily mean I keep books. They are available.

Mr. GRAY. What are they kept on; on separate sheets of paper? I am not talking about the records in the brokerage houses, but do you, either through a secretary, or some one else up there keep books, and by books is meant whether it is a bound book, a loose-leaf book, or sheets of paper. Do you keep them?

Mr. SMITH. Yes, sir.

Mr. GRAY. Yes; and who keeps them for you?

Mr. SMITH. A secretary.

Mr. GRAY. What is his name?

Mr. SMITH. Quinn.

Mr. GRAY. What is his first name?

Mr. SMITH. Frank.

Mr. GRAY. Where does he live?

Mr. SMITH. In Connecticut.

Mr. GRAY. What place in Connecticut?

Mr. SMITH. Westport.

Mr. GRAY. Do you know his local address?

Mr. SMITH. No, sir.

Mr. GRAY. How long has he been with you?

Mr. SMITH. About six years.

Mr. GRAY. And you do not know his address?

Mr. SMITH. No, sir. I can give you his telephone number.

Mr. GRAY. Give us that.

Mr. SMITH. Westport 3423.

Mr. GRAY. He is with you in New York, I suppose?

Mr. SMITH. Yes; every day.

Mr. GRAY. Where is your New York office?

Mr. SMITH. 52 Wall Street.

Senator FLETCHER. He does not keep the records down there, does he?

Mr. SMITH. At his home?

Senator FLETCHER. No.

Mr. SMITH. No; in my office.

Mr. GRAY. Now, give me the various pools you have been in, and the other members of the pool.

Senator COUZENS. Mr. Gray, before you ask him that question, I would like to ask him whether any accountant of the Bureau of Internal Revenue has ever called at your office to check the income-tax returns.

Mr. SMITH. Many times.

Senator COUZENS. Many times?

Mr. SMITH. Yes, sir.

Senator COUZENS. And have you had complete records to show the returns?

Mr. SMITH. Yes, sir.

Mr. GRAY. Now, give me a list of the pools you have been in in the last six years, and who was with you.

Mr. SMITH. Well, Lima Locomotive—I would not call it a pool.

Mr. GRAY. Well, you were in a pool on Lima Locomotive, as testified by Mr. Rockefeller and Mr. Bragg?

Mr. SMITH. Yes, sir.

Mr. GRAY. That is right?

Mr. SMITH. Yes.

Mr. GRAY. Now who was in that, if anybody, besides Mr. Rockefeller and Mr. Bragg?

Mr. SMITH. No one.

Mr. GRAY. No one?

Mr. SMITH. No, sir.

Senator GLASS. Now, what do you call a pool?

Mr. SMITH. A pool is more of a formal document that you sign and agree to a certain amount of responsibility.

Mr. GRAY. Is not that a syndicate? Isn't it what you like to call a syndicate, and is not that the reason you say these are not pools, because pools have the reputation of injuriously operating the market for their own benefit? Is that not the reason you men like to stay away from the word "pools" and call it a syndicate?

Mr. SMITH. I would not say that was so in my case. I am perfectly willing to call the Anaconda, and others, pools. I can show you the difference.

Mr. GRAY. Then will you answer Senator Glass's question, and may I come back and add to it: What is a pool, and what difference do you make between a pool and a syndicate?

Mr. SMITH. Well, a pool is really drawn up, a legal document, and you obligate yourself to buy a certain percentage of the shares that are bought and to put up a certain amount of money. In a syndicate or joint account a couple of men get together and say, "Let us buy so much of this stock."

Mr. GRAY. With a written agreement?

Mr. SMITH. With a written agreement.

Senator COUZENS. Now, how many men are usually in a syndicate, as distinguished from a pool?

Mr. SMITH. I have never been in syndicates that exceeded three people.

Senator COUZENS. And in this case there was no written agreement?

Mr. SMITH. None I was in. I have heard of one or two.

Senator COUZENS. One or two?

Mr. SMITH. Yes, sir.

Mr. GRAY. Now, you say——

Mr. SMITH. A small number of men, and there isn't a written agreement.

Mr. GRAY. And when you have an agreement, do you have an attorney draw it?

Mr. SMITH. I think they are drawn by an attorney.

Mr. GRAY. And do you mean to tell this committee that this attorney does not refer to this group of men that are in this syndicate as

"syndicate member"? Have you ever seen one that has referred to it as a pool?

Mr. SMITH. No.

Mr. GRAY. Then, as a matter of fact, it is referred to as a syndicate?

Mr. SMITH. Yes, sir.

Mr. GRAY. So what you have described is a syndicate. Now what is a pool?

Mr. SMITH. A syndicate. [Laughter.]

Mr. GRAY. You say they are different. Let me ask you: Is not a pool, in the language of the Street—is not this what is commonly known as a pool on the Street: A group of men that has gotten together for the purpose of illegally operating, either on the up or the down side of the market? That is right, isn't it, Mr. Smith?

Mr. SMITH. I do not think it is.

Mr. GRAY. What do you think it is? I have tried to help you give a definition of it, that is all. And you have answered that a pool is a syndicate.

Mr. SMITH. And the difference between the two operations is, one is a syndicate and the other is a joint account.

Mr. GRAY. Then what you mean to tell us now—I want to be perfectly fair in the matter—is that when you have a written agreement and form a syndicate, that is a pool?

Mr. SMITH. That is the same as a pool.

Mr. GRAY. Do you mean that the improper elements that I have suggested are not in it as to a written agreement?

Senator COUZENS. I wish the attorney would define what he means by "improper elements." An "illegal contract."

Senator GLASS. I think so too.

Senator COUZENS. I do not think that is any question to be put to the witness, unless the committee knows what it means.

Mr. GRAY. I will either define it or ask him to define it. I will do it in my questions, or ask him to define it.

Senator COUZENS. I wish you would, when you refer to an illegal contract, tell the committee what you mean by that.

Mr. GRAY. I am not talking about an illegal contract, but——

Senator COUZENS (interposing). So we understand what you mean. What do you mean by an illegal contract?

Mr. GRAY. All right. I will do that by a series of questions.

You know, as a matter of fact, Mr. Smith, that there have been pools of men formed to operate on the New York Stock Exchange in cooperation with a specialist who gives to that pool inside information in order that they may operate to a greater advantage than others who, without that knowledge, are buying and selling stocks.

Mr. SMITH. No; I do not.

Mr. GRAY. Never heard of it?

Mr. SMITH. No; I did not.

Mr. GRAY. Never heard of it?

Mr. SMITH. Never heard of it.

Mr. GRAY. Your picture, then, of the operation of all pools and syndicates is that they buy and sell without the aid of a specialist; is that correct?

Mr. SMITH. No; they have got to have the aid of a specialist. You give the specialist orders——



Mr. GRAY (interposing). Of course, in the carrying out of the buying and selling, I understand that. Have you been a member of a syndicate in which specialists have been members?

Mr. SMITH. No; I have not.

Mr. GRAY. Have you ever known a specialist to disclose the information contained in his books?

Mr. SMITH. No; I did not.

Mr. GRAY. If he did so it would be illegal, would it not?

Mr. SMITH. I don't know.

Mr. GRAY. You are a member of the stock exchange, and do not know that?

Senator COUZENS. What does the counsel mean by "illegal"?

Mr. GRAY. Illegal conduct on the exchange, in violation of the rules of the exchange, if I have to answer questions, Senator Couzens.

Senator COUZENS. That would not necessarily be illegal would it?

Senator GLASS. You concede it is dishonest, do you not?

Mr. SMITH. I do not think it would be dishonest for me to go to a specialist and say, "What kind of a bid have you got for a stock now?"

Senator GLASS. Would it not be dishonest in him to tell you?

Mr. SMITH. No, sir; he could tell me that he had a bid for 500 or 1,000 shares.

Senator GLASS. Why should he?

Mr. SMITH. Why should he?

Senator GLASS. Yes; why should he tell you that?

Mr. SMITH. Because you might want to sell it.

Senator GLASS. Well, I think a fellow who would do that would pick your pocket.

Mr. GRAY. I might direct the committee's attention to the fact that the rules provide that if a specialist did that, he would be immediately investigated and put off the floor; that is the reason I used that term. That is what the testimony shows.

Now, let me come back because I want the basic information from you to-day. Give me a list of the pools and syndicates that you have been in. You started off with Lima Locomotive. What others?

Mr. SMITH. Radio.

Mr. GRAY. Who was in the Radio pool?

Mr. SMITH. A great many people.

Senator GLASS. Well, was it not testified here that one of those specialists was in that pool?

Mr. GRAY. Michael J. Meehan was a specialist in Radio, and was in this pool.

Senator GLASS. That is what I thought.

Mr. GRAY. I wanted to get this witness to state it.

Mr. SMITH. I do not think that is so.

Mr. GRAY. He was not?

Mr. SMITH. No; I do not think Mr. Meehan has ever been a member of any pool. It is in his wife's name. [Laughter.]

Senator GLASS. He is one of those wise fellows who never tells his wife anything.

Mr. GRAY. Why would he put it in his wife's name, Mr. Smith? Only to evade the inference that is to be drawn from the fact that

he is a specialist in that stock, and was a member of the pool in that stock?

Mr. SMITH. No; for the same reason that I would do it.

Mr. GRAY. Why did you do it?

Mr. SMITH. Because it is a rule of the exchange that you can not be a broker and a principal at the same time. It is also a State law.

The CHAIRMAN. His wife would be one and he the other?

Mr. SMITH. Yes, sir.

Mr. GRAY. That is one of the ways they evade the rule?

Mr. SMITH. I would not say that they evade the rule.

Mr. GRAY. Of course, when the wife acts for him in those cases, she is only, in that case, a dummy name, is she not?

Mr. SMITH. I do not know what you are trying to infer.

Mr. GRAY. I mean, she is not a real name in the pool but only a name he is using?

Mr. SMITH. I can not answer for Mr. Meehan.

Mr. GRAY. What about yourself?

Mr. SMITH. My wife is over 21, and she has money of her own.

Mr. GRAY. And do you mean to tell me that every time you use your wife's name that it is a case where she is actually a member of the pool?

Mr. SMITH. No; I do not.

Mr. GRAY. Then you mean to admit to me that you desire to evade the rules of the stock exchange, and not desiring to use your own name, you use your wife's name to cover the transaction?

Mr. SMITH. If you want me to answer that way, I will say yes.

Mr. GRAY. That is what I want to know. Now who was in this Radio pool? First, tell me what year it was in.

Mr. SMITH. It may have been—I think it was in 1928.

Mr. GRAY. Was it 1928 or 1929?

Mr. SMITH. 1928, I think.

Mr. GRAY. How long did it last?

Senator COUZENS. Let us get the names one at a time, please.

Mr. GRAY. All right. Give us the names.

Mr. SMITH. I think Rockefeller was in it.

Mr. GRAY. Yes. By that you mean Percy A. Rockefeller?

Mr. SMITH. Yes, sir.

Mr. GRAY. And Meehan's wife?

Mr. SMITH. And Meehan's wife.

Mr. GRAY. What is her first name?

Mr. SMITH. Elizabeth.

Mr. GRAY. And who else?

Mr. SMITH. Gertrude D. Smith.

Mr. GRAY. By the way, did they use her married name or her maiden name?

Mr. SMITH. I could not say. In my case, it was——

Mr. GRAY. You do not know what her maiden name is, or was?

Mr. SMITH. No, sir.

Mr. GRAY. Now, Gertrude A. Smith?

Mr. SMITH. Gertrude D.

Mr. GRAY. Gertrude D. Smith?

Mr. SMITH. Yes, sir.

Mr. GRAY. That is your wife?

Mr. SMITH. Yes, sir.

Mr. GRAY. Who else? Mr. Bragg?

Mr. SMITH. Mr. Bragg.

Mr. GRAY. Who else?

Senator COUZENS. Was Owen D. Young?

Mr. SMITH. No; Owen D. Young wasn't in it.

Mr. GRAY. Mr. Raskob?

Mr. SMITH. No. He may have been. I don't remember.

Mr. GRAY. Mr. Kenny?

Mr. SMITH. Why, W. F. Kenny, I think.

Mr. GRAY. Fred Fisher?

Mr. SMITH. Yes; Fred Fisher.

Mr. GRAY. Did Raskob use his own name?

Mr. SMITH. I do not know.

Mr. GRAY. Did Kenny use his own name?

Mr. SMITH. I do not know.

Mr. GRAY. Did Fisher use his own name?

Mr. SMITH. If he was in it, he did. I may be mistaken about that.

Mr. GRAY. Anybody else?

Mr. SMITH. There were a great many.

Mr. GRAY. Will you furnish us that list of the names? Mr. Bragg said he would furnish it immediately, or before he is required to come down again. Will you furnish us a list of the names?

Mr. SMITH. Yes, sir.

Mr. GRAY. Thank you. Now, what others?

Senator FLETCHER. What was the purpose of organizing this pool?

Mr. SMITH. To make money.

Senator FLETCHER. Well, make it how?

Mr. SMITH. Through selling the stock at a profit.

Senator FLETCHER. Buying stock and then boosting it and unloading it at a profit; is that the idea?

Mr. SMITH. Yes, sir.

Senator GLASS. In other words, to affect the market fictitiously, to put it at a higher rate than that at which you bought?

Mr. SMITH. Well, I would not say that you affect the market fictitiously, Senator. If you want me to go into details in some experiences I have had in connection with putting stocks—

Senator GLASS (interposing). Well, is it not the real purpose to put the stock up regardless of its earning power?

Mr. SMITH. No, sir; I would not say to put it up regardless of its earning power, because it had very good earning power at the time.

Senator GLASS. Perhaps so.

Mr. SMITH. And the prospects were very bright for earning considerably more than it was earning.

Senator GLASS. And your idea in buying the stock was to put the stock up?

Mr. SMITH. Yes, sir.

Senator GLASS. To make your impression on the market to put the stock up?

Mr. SMITH. Yes, sir.

The CHAIRMAN. And then sell it?

Mr. SMITH. Yes, sir.

Mr. GRAY. And then sell short, and put the stock down?

Mr. SMITH. The pool would not do that. I do not know of a pool organized to sell stock short.

Mr. GRAY. Well, I do not want to get into that subject until we get the other question answered.

The CHAIRMAN. I just want to say that there is no chance of an executive session to-day; there are too few Senators here, and as soon as we get through with this witness we will adjourn until 10.30 on Monday morning. I do not know whether we will have any witnesses for Monday morning; but, if not, we will take up the policy.

I shall have to leave now, and I will ask Senator Brookhart to take the chair for the remainder of the session.

Senator FLETCHER. Were you on the short side of the market this month?

Mr. SMITH. Yes, sir.

Senator FLETCHER. In April?

Mr. SMITH. Yes, sir.

Senator FLETCHER. How are you standing now? Are you on the short side?

Mr. SMITH. Well, I am long and short.

Senator FLETCHER. Well, mostly short?

Mr. SMITH. Well, my long position exceeds my short position considerably.

Senator FLETCHER. In all kinds of stocks, or mostly one kind?

Mr. SMITH. Mostly mining stocks.

Senator FLETCHER. You have said you were considered a bear on the market, I think.

Mr. SMITH. Yes, sir.

Senator FLETCHER. Then, if you are a bear, how does it happen you are long?

Mr. GRAY. You have covered a great deal this year, have you not?

Mr. SMITH. I covered a great deal last year; but I am operating all the time.

Senator FLETCHER. Do you know anything about bear raids?

Mr. SMITH. Well, if you will tell me just what you mean by a raid—

Senator FLETCHER (interposing). Well, suppose we say a combination of people for the purpose of depressing the price of some particular stock or of all stocks; an organized effort to depress the market. You might begin with that.

Mr. SMITH. No; I do not know of any organized effort by individuals or groups to depress the market.

Senator FLETCHER. Well, leave out the word "organized"; do you know of efforts to do that without any organization?

Senator GLASS. A concerted effort?

Senator FLETCHER. A concerted effort.

Mr. SMITH. No; I do not, Senator.

Senator GLASS. Well, what does all this talk about bear raids mean; something manufactured by the newspapers?

Mr. SMITH. I would think so.

Senator FLETCHER. How does it happen that 1,300,000 shares were covered in two days, between April 6 and April 8; I think the record shows that? Was that not through some effort on the part of somebody to depress the market?

Mr. SMITH. I would be surprised if there was as much as that covered in those two days, unless there was a very perpendicular drop in the market that would prompt people to take huge profits.

Senator FLETCHER. You do not know of any such thing happening?

Mr. SMITH. As 1,300,000 shares being covered in those two days?

Senator FLETCHER. Yes.

Mr. SMITH. No, sir.

Senator FLETCHER. If it had happened, do you think you would have known about it? You have been right there on the exchange all the time?

Mr. SMITH. No, sir; I was in Canada. I was in Canada all of that week.

Mr. GRAY. Now, coming back to this Anaconda pool, when was that pool operating, and who was in that?

Mr. SMITH. It was operating in the early part of 1929.

Mr. GRAY. Go ahead. Who was in it?

Mr. SMITH. Rockefeller.

Mr. GRAY. That is, Percy A.?

Mr. SMITH. Yes; Percy A.

Mr. GRAY. To get the record right.

Mr. SMITH. Yes, sir. And F. J. Fisher.

Mr. GRAY. Which Fisher was that?

Mr. SMITH. F. J.

Mr. GRAY. Yes. Mr. Bragg was in it?

Mr. SMITH. Yes, sir.

Mr. GRAY. Well, who else?

Mr. SMITH. Mr. Meehan.

Mr. GRAY. That is M. J.?

Mr. SMITH. Yes, sir.

Mr. GRAY. In his wife's name again?

Mr. SMITH. I suppose so.

Mr. GRAY. Go ahead.

Mr. SMITH. Durant.

Mr. GRAY. Which Durant?

Mr. SMITH. W. C.

Mr. GRAY. Was Danforth in it?

Mr. SMITH. No, sir; not to my knowledge.

Mr. GRAY. Did Durant go in it in his own name, or in his wife's name?

Mr. SMITH. I think he went in in the name of W. C. Durant.

Mr. GRAY. Go ahead. Who else?

Mr. SMITH. Have you got Kenny?

Mr. GRAY. No. Was Kenny in that?

Mr. SMITH. I think so.

Mr. GRAY. Was Raskob in that pool?

Mr. SMITH. I think so.

Mr. GRAY. Any others?

Mr. SMITH. Yes; there were a great many others.

Mr. GRAY. You can not remember them now?

Mr. SMITH. No, sir.

Mr. GRAY. Will you give us that list?

Mr. SMITH. They would not necessarily be all known to me.

Mr. GRAY. Was Mitchell in it, of the National City?

Mr. SMITH. I do not think so.

Senator GORE. Mr. Gray, has he described, before I came in, the *modus operandi* by which they ran the price up and down?

Mr. GRAY. Senator Gore, he has not. And I may say, by reason of the limitation of time, I was instructed by the chairman to get from the two witnesses, Mr. Bragg and Mr. Smith, the basic information necessary, and to request of them the documentary evidence of their operations on the market. I am only securing a list of those pools and who was in them with him. And they are both being held subject to call, and will be asked to explain many other things. I may say, I could spend, even with the information I have now, an hour or two with each one of these witnesses. But the chairman has instructed me to get the basic information at this time only, on account of the limitation of time.

Senator GORE. You think your investigation should be deferred for the present?

Mr. GRAY. Yes, sir.

Senator GORE. That is all right with me.

Mr. GRAY. I am acting under the chairman's instructions with reference to that.

Senator GORE. All right.

Mr. GRAY. Now, what was the next pool you were in?

Mr. SMITH. I think that was the last pool I was in.

Mr. GRAY. You were in Alaska, Juneau, were you not?

Mr. SMITH. No, sir.

Mr. GRAY. Not in any pool with Rockefeller on that?

Mr. SMITH. No, sir.

Mr. GRAY. It is fair to you to say that Mr. Rockefeller said under oath yesterday that you were in a pool together—

Mr. SMITH. We were in a joint account.

Mr. GRAY. Oh, excuse me. Was it only the two of you?

Mr. SMITH. Only the two of us.

Mr. GRAY. You and Mr. Rockefeller operated in Alaska, Juneau?

Mr. SMITH. Yes.

Mr. GRAY. When?

Mr. SMITH. We still have 5,000 shares.

Mr. GRAY. When was the pool started?

Mr. SMITH. It was not a pool.

Mr. GRAY. When was the joint account started?

Mr. SMITH. It is the offspring of Lima Locomotive. When we wound up Lima Locomotive I took the money that was left from that account and said that if he wanted to trust my judgment I would try to make up the loss.

Mr. GRAY. And he trusted?

Mr. SMITH. Yes, sir.

Mr. GRAY. Have you made it up?

Mr. SMITH. Yes, sir.

Mr. GRAY. On the short side of the market?

Mr. SMITH. Short and long.

Mr. GRAY. Short and long?

Mr. SMITH. Yes, sir.

Mr. GRAY. You went to Alaska, too, I think, did you not, to make some investigations?

Mr. SMITH. Yes; and for pleasure. I took my family with me.

Mr. GRAY. Now, what other pools or joint accounts were you in?

Mr. SMITH. I think that is about all.

Mr. GRAY. Operating, principally, when you did not do it through yourself, through W. E. Hutton & Co.?

Mr. SMITH. And other firms on the exchange.

Mr. GRAY. And other firms on the exchange?

Mr. SMITH. Yes, sir.

Mr. GRAY. Did you use, usually, one or two firms when operating?

Mr. SMITH. We used five or six firms; I have accounts in five or six firms to-day.

Mr. GRAY. Unless the chairman and the members of the committee want me to go further in my examination with Mr. Smith until I get the data from him, that is all I have to ask him now.

Senator BROOKHART (presiding). I believe we have reached a good place to stop for to-day, and the committee will stand adjourned until 10.30 o'clock on Monday, when we will meet again, either for witnesses, or in executive session.

(Thereupon, at 1.10 o'clock p. m. on Saturday, April 23, 1932, the committee adjourned until Monday, April 25, 1932, at 10.30 o'clock a. m.)





## STOCK EXCHANGE PRACTICES

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TUESDAY, APRIL 26, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10.30 o'clock a. m., pursuant to adjournment on Saturday, April 23, 1932 (the meeting on yesterday having been an executive session), in room 301, Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Goldsborough, Townsend, Walcott, Blaine, Carey, Watson, Couzens, Steiwer, Fletcher, Glass, Barkley, Bulkley, Gore, and Costigan.

The CHAIRMAN. The committee will come to order.

Gentlemen of the committee, Congressman LaGuardia has come into possession of some papers that I think are important as bearing on our investigation. He has asked that he may present them to the committee this morning, and therefore this meeting was called for that purpose.

If there is no objection we will next hear from Congressman LaGuardia.

Senator BARKLEY. Mr. Chairman, may I ask, without knowing anything about the matter, whether anybody connected with the committee has examined these papers to see whether there might be anything among them that ought not to be revealed to the committee? I am just asking for information.

The CHAIRMAN. Senator Barkley, I have looked at them for about 15 or 20 minutes.

(At this point a flashlight bulb burst and interfered with the proceedings.)

Senator GLASS. Mr. Chairman, I thought that Senator Couzens had protested against this nuisance.

The CHAIRMAN. While the witness is speaking; yes. I told the photographers we would try to arrange that they might take photographs before the proceedings started. But if they keep exploding bulbs, the members of the committee will have to protect themselves.

Senator COUZENS. Mr. Chairman, I ask that these photographers either be excluded from the room or be allowed to remain in the room without their cameras.

The CHAIRMAN. All right, that settles the matter of any more taking of photographs this morning, or until authority is given by the committee.

Senator GLASS. All of us look alike to-day as compared with yesterday. What is the use of taking our pictures two or three times a day?

The CHAIRMAN. That point is well taken. There will be no more photographs taken to-day without consent of the committee. Now to answer Senator BARKLEY as to what is among these papers.

Senator BARKLEY. If you please.

The CHAIRMAN. I am not able to answer your question in detail, but I do feel that the committee should not refuse to accept the evidence which I think Congressman LaGuardia has.

Senator BARKLEY. Very well. I just wanted to know if the matter had been looked into.

The CHAIRMAN. Proceed, Congressman LaGuardia.

### **STATEMENT OF F. H. LAGUARDIA, A REPRESENTATIVE FROM THE TWENTIETH DISTRICT OF NEW YORK**

Representative LAGUARDIA. Mr. Chairman and gentlemen of the committee, the House Committee on the Judiciary, of which I am a member, through a subcommittee of which I was also a member, held hearings for a short time on a bill which I introduced to regulate stock exchanges. I started looking into the matter of stock exchanges several months ago. Our committee was simply considering legislation and had no power of subpoena, and then with the pressure of legislative work it has not been very active.

It was for that reason that——

Senator COUZENS (interposing). Congressman LaGuardia, will you speak a little louder, please?

Representative LAGUARDIA. Yes, sir; I was going to as soon as I come to something to present in detail. It was for that reason I suggested to Senator Norbeck to turn over to this committee some of the information I have.

It has been stated by responsible officials of the New York Stock Exchange, before our committee, and I believe also before this committee, that the exchange as such, and the membership of the exchange, had absolutely nothing to do with the promotion of stocks, with the ballyhooing of stocks in order to raise prices; that they were simply brokers to buy and sell for their customers.

I am prepared to state that any such statement made by any member of any stock exchange is deliberately false, is a misstatement, and is made knowing that it is a misstatement.

And the peculiar part of the stock business as it has been developed in this country is that misstatements are profitable. A misstatement may send the price of a stock up and there is a profit in that. A deliberate misstatement may send the price of a stock down, and as long as there is fluctuation and manipulation, speculation is possible and there is profit in that.

May I for a moment cite a deliberate instance of a misstatement made. On March 3, 1932, the firm of Hornblower & Weeks sent out a statement to their customers, and through publicity mediums, in which they stated:

We anticipate a period of accumulation incident to the beginning of a bull market. Indeed, we may be said to be already in the stages of a bull market.

Senator BARKLEY. What was the date of that, Congressman LaGuardia?

Representative LAGUARDIA. It was March 3, 1932.

The CHAIRMAN. In other words, it was March 3 of this year.

Representative LaGUARDIA. Yes.

The CHAIRMAN. You may continue.

Representative LaGUARDIA. The statement goes on to say:

For instance, bond prices have advanced steadily since December 17, 1931. During January the value of bonds listed on the New York Stock Exchange increased \$523,431,813, and during February we estimate an additional appreciation of \$260,000,000—

Senator BULKLEY (interposing). Congressman, are you reading from the statement of Hornblower & Weeks or are you now commenting?

Representative LaGUARDIA. I am still reading from the statement of Hornblower & Weeks.

Senator BULKLEY. All right.

Representative LaGUARDIA. I continue reading:

A total of over \$780,000,000 since January 1. Brokers' loans, representing public holdings of securities, which in 1929 exceeded \$8,500,000,000 to-day total about one-sixteenth of that amount.

Senator GORE. Did you say one-sixteenth?

Representative LaGUARDIA. Yes. I continue reading:

Five large wire houses had total loans exceeding \$1,000,000,000 at the top of the market in 1929. To-day the aggregate borrowings of these houses are less than \$35,000,000. Two of these houses are lending money.

Thus, liquidation seems definitely ended.

Meanwhile, we are on the threshold of spring, when, regardless of major trends, the business of the country usually enjoys a seasonal improvement in volume, starting with crop preparation and outdoor activities.

The risk of purchasing securities under existing circumstances seems minimum, and we therefore urge some immediate purchases of sound securities and additional purchases during any periods of irregularity or recession in coming weeks.

That, Mr. Chairman and gentlemen of the committee, was March 3, 1932. And in the meantime there was no such bull market. Any such optimistic prophecy was not justified. And a casual study of the market during the ensuing month will show a steady decline.

But the same firm, under date of April 6, 1932, through the same medium, sends out this statement:

John W. Prentiss, of Hornblower & Weeks says:

"On last Thursday, March 31 (five days ago) the LaGuardia resolution for taxing stock transactions was passed by the House of Representatives."

And of course, Mr. Chairman and gentlemen of the committee, there was no such thing as a LaGuardia resolution [reading]:

The day following the security markets began to decline and they have been declining ever since.

And here is their alibi for their first misleading statement:

Since the passage of this resolution, the value of bonds listed on the New York Stock Exchange has declined \$1,097,047,618 and the value of stocks has declined \$2,418,969,603. In other words bonds and stocks listed on the New York Stock Exchange and owned by life insurance companies, savings banks, fire insurance companies, banks and individual investors have been deflated in value to the extent of more than \$3,500,000,000 as a direct result of the LaGuardia tax clause of the revenue bill.

Senator WATSON. And was such a resolution passed?

Representative LaGUARDIA. No, sir.

Senator WATSON. With anybody's name to it?

Representative LA GUARDIA. No. It was a committee amendment. And, of course, they knew that.

Senator GORE. Congressman, were you quoting the last sentence or was that a statement you were making?

Representative LA GUARDIA. What was the last statement that you refer to?

Senator GORE. You were reading, and then I could not tell whether the last sentence was a quotation or your own comment.

Representative LA GUARDIA. Was it this?

In other words, bonds and stocks listed on the New York Stock Exchange and owned by life insurance companies, savings banks, fire insurance companies, banks, and individual investors have been deflated in value to the extent of more than \$3,500,000,000 as a direct result of the LaGuardia tax clause of the revenue bill.

Senator GORE. Yes: that was it.

Representative LA GUARDIA. Yes; I was quoting from Hornblower & Weeks' statement.

Senator BARKLEY. And you do tell us that the dates compare, that is, that date and the date that the House passed the tax clause of the revenue bill?

Representative LA GUARDIA. They synchronize; yes.

Senator BARKLEY. They are the same.

Representative LA GUARDIA. Five days afterward.

Senator BARKLEY. So, instead of a LaGuardia resolution it was an amendment to the tax bill offered on the floor of the House?

Representative LA GUARDIA. Yes, sir; which had nothing to do with these declines.

Senator BARKLEY. Who offered that amendment?

Representative LA GUARDIA. It was a committee amendment.

Senator GORE. On what date did that stock tax pass?

Representative LA GUARDIA. He made this statement on April 6, 1932, and it must have passed about April 1.

The CHAIRMAN. You may proceed, Mr. Congressman.

Representative LA GUARDIA. And then the statement goes on to say [reading]:

Since the LaGuardia tax provision was passed the stock of the American Telephone & Telegraph Co. has been deflated by \$180,000,000. Of the 644,783 stockholders, over 600,000 of them own less than 100 shares apiece. These stockholders each owning less than \$10,000 worth of stock are being terribly penalized by the LaGuardia tax bill.

Now, gentlemen of the committee, a very reputable gentleman, very closely connected with this firm, writes me as follows:

I am inclosing two clippings from the Boston News Bureau, one from the issue of March 3 and the other from the issue of April 4. Each is interesting in the light of the other and both are interesting in the light of interim events.

When the first one was issued the Dow-Jones industrial average stood at 86.28. By the end of the month it had declined to 73.28 and by the 5th of April to 68.07. Anyone who purchased at the higher level would, if he had maintained his commitments, have suffered a loss by the end of the month of 11 points, as measured by the Dow-Jones average of 16 points by April 5. Messrs. Hornblower & Weeks do not concern themselves with the first part of the loss but only with the second, for which they try to hold you responsible.

The decline in April was merely an extension of the decline which began in the first part of March. This decline, with the exception of two or three minor reactions, has been continuous. It has been due to generally unsatisfactory business conditions, recessions in car loadings, in electrical output, in steel ingot output, and uncertainty regarding the maintenance of dividends in

the case of the American Telephone & Telegraph Co., the dead certainty that they would not be maintained. All this was well known to Messrs. Hornblower & Weeks. It only shows to what lengths such forces will go to confuse and to humbug the public mind.

Now, gentlemen of the committee——

Senator WATSON (interposing). Congressman LaGuardia, just for the purpose of getting the record straight, let me ask you a question: How did they happen to use your name in connection with it? Had you introduced a resolution, or had you made a speech on the subject?

Representative LaGUARDIA. No, sir.

Senator WATSON. Are you a member of the committee?

Representative LaGUARDIA. Well, I am a one-four hundred and thirty-fifth part of the House of Representatives. Of course they have used my name, but if a very stable and conservative gentleman, for instance, if they had said: The Watson resolution——

Senator WATSON (interposing). Yes; I can understand.

Representative LaGUARDIA. It would not cause a flurry.

Senator WATSON. No.

Representative LaGUARDIA. But, they have said that the LaGuardia resolution, I suppose meaning that that will do it.

Senator WATSON. I understand that thoroughly. But what I am trying to get at, were you a member of the committee?

Representative LaGUARDIA. No.

Senator WATSON. And you offered no resolution?

Representative LaGUARDIA. Oh, I offered several amendments.

Senator WATSON. On this particular subject?

Representative LaGUARDIA. The only resolution I offered in connection with this was—well, they told us very bluntly: If you dare to pass any tax on stock transfers we will fool you. We will move over to Canada. And I framed an amendment which I offered and was adopted that we would tax them if the sale was made in any foreign country. That is all that I had to do with it. I did include a stock transfer tax with a general tax plan in lieu of the sales tax.

Oh, this is what they did: The Saturday before we voted on it the stock exchanges, as I am informed, jumped in to send messages; and of course they sent all sorts of messages to the committee and to Members. They contacted me through some of my boys who served in the war with me, in the same squadron with me, who are very active young men, and they came and told me two things: They said, "LaGuardia, if that passes we are going to have a ruined market, we are going to have a panic." And they told me and other members of the committee: "Why, don't you dare tax us or we will go to Canada."

Senator BROOKHART. And they have said substantially the same thing to this committee in the hearings we have held here.

Senator GORE. Let me fix the date. As I recall in the winter United States Steel sold down to 35½%. It then rallied to 52½%. Do you know the dates of those two quotations?

Representative LaGUARDIA. I do not.

Senator GORE. All right.

The CHAIRMAN. You may go ahead, Congressman.

Representative LaGUARDIA. Now, gentlemen of the committee, just one more point before I go to the real purpose of my coming

here to-day, and that point is this: When Mr. Whitney appeared before our committee he said that regulation and laws were not necessary; that they maintained discipline and had complete control over their members. I now state that that statement is not true. Mr. Whitney knew it was not true when he made it, and no such thing happens.

I will ask this committee, or may I suggest that this committee get Charles Hayden, of Hayden, Stone & Co.; Mr. J. S. Bache, of J. S. Bache & Co.; Matt. Brush; and Percy A. Rockefeller to file with this committee a list of all the companies in which they are directors, and then to get an actual transcript of their stock speculations in those companies in which they are directors during the last five years.

I will say that no matter what the firm of Hayden, Stone & Co. does, it will not be disciplined.

Might I call the committee's attention to Mr. Whitney's recent testimony before our House committee; that is, his explanation of the lack of any need for regulation or control and the perfect conduct of their members? I called his attention to a case decided in the Supreme Court of the State of New York in which the court held fraud, a deliberate fraud, where the customers' man was telling a lady customer to hold her stock and at the same time a member of the firm, Mr. Hoyt, was playing with it. And the court said:

The 8,000 shares pool stock were distributed and Defendant Hoyt, one of the distributors, sold his participation late in December, 1920, and in January, 1921. But defendants suffered Keays to advise the plaintiff to hold her stock until January, 1922, when Mr. Hoyt advised her to sell it at 30½, and to score a loss of over \$15,000.

The court described that as a fraud, and entered judgment for the plaintiff. They paid up. And when I called that to Mr. Whitney's attention he dismissed the matter with a wave of the hand and the remark, "The court was wrong and the Stock Exchange was right."

Senator FLETCHER. What case was that?

Representative LA GUARDIA. That was the case of Grace Van B. Roberts against Charles Hayden, Richard F. Hoyt, Gerhard M. Dahl, Jeremiah A. Downs, Frederick H. Baird, Claude W. Peters, Lester Watson, and Arthur C. Sherwood, doing business under the firm name and style of Hayden, Stone & Co. It was a suit in the Supreme Court of Ulster County, State of New York.

Senator COSTIGAN. Following that case there was an effort made to exclude the firm of Hayden, Stone & Co. from further operations on Wall Street, wasn't there?

Representative LA GUARDIA. Yes, sir.

Senator COSTIGAN. And that effort was unsuccessful?

Representative LA GUARDIA. It was not only unsuccessful, but the complainant was abused and ridiculed. And, as I have already stated, when Mr. Whitney appeared before our House committee he just brushed it aside with the statement that "the court was wrong."

Senator COUZENS. Congressman, would you say that Mr. Whitney had perjured himself before this committee?

Representative LA GUARDIA. I do not know whether he was under oath or not here. He was not under oath before our committee.

Senator COUZENS. Well, he was under oath when he appeared before this committee. Now, did he perjure himself when he appeared here?

Representative LA GUARDIA. In order to answer that I would have to read all of his testimony carefully.

Senator COUZENS. Well, you were quoting awhile ago some of the things he said before this committee, as I understood you.

Representative LA GUARDIA. I will say this, that when Mr. Whitney, in reply to my questions as to his dealings in connection with J. P. Morgan & Co. in the company known as the United Corporation, a holding company, and when he replied he did not know anything about the figures, then I will say that Mr. Whitney should not be on the stock exchange if he did not know the figures, or if he did and if he had been under oath before my committee, he would have perjured himself.

Senator COSTIGAN. You were reading his statement as given before the House committee and not his testimony as given before this committee?

Representative LA GUARDIA. Yes, sir.

Senator COUZENS. I understood that, and yet when Congressman La Guardia started out he made reference to Mr. Whitney's testimony before this committee, and it was that which I had reference to in my question.

Representative LA GUARDIA. Well, I have here some suggestions and leads which I will turn over to the chairman.

The CHAIRMAN. Let us identify them. Describe them briefly.

Representative LA GUARDIA. I will hold them and deliver them to you.

Senator COUZENS. But could you answer my question first?

Representative LA GUARDIA. Very well, we will return right to that matter. As to the statement that the public was to blame in their wild scramble to invest, and that brokers had absolutely nothing to do with fixing prices, with promotions, or advertising, I now state to this committee that that statement is not true. Not only do brokers rig the market, not only do brokers speculate in stocks in which members of the firm are directors of the corporations, but I say now that I shall proceed to deliver to this committee proof that when any of these stocks are selected to be rigged a high pressure publicity man is retained. He writes the stuff and the papers copy it. Financial writers contact the publicity man, and I have the checks here of some financial writers that received money from one of these high pressure publicity men.

Now, we will first take the case of the Savage Arms Corporation, and I have just a few sample cases here, gentlemen of the committee; and this is one—

The CHAIRMAN (interposing). Congressman, do you recall whether Ben Smith, a previous witness here, was the specialist in the case of Savage Arms? I think he so testified before this committee.

Representative LA GUARDIA. The brokerage firm involved was Jackson Bros. and Boesel & Co. There are many of these high-pressure publicity men, I will limit myself to-day to one. (I will tell you more about him in a few minutes.) He handled, in the course of 10 years, 61 different stocks. I am prepared to give the committee the names of all these stocks.

The CHAIRMAN. What do you mean by saying he handled them?

Representative LA GUARDIA. He ballyhooed them, promoted them, rigged them.

Senator GORE. Up or down or both?

Representative LAGUARDIA. Up.

The CHAIRMAN. Proceed.

Representative LAGUARDIA. This man will testify if he is called before your committee that he paid out from his fees in order to get his stories across in newspapers the sum of \$286,279. I have some of the checks to show the payments, and I shall only use names where I have the checks. I shall turn over to the chairman checks payable to cash with the name of the pay-off man, who in turn paid other financial writers in cash. The committee may deal with that matter as they may be advised. I am able to establish positive proof of all payments. The pay-off man can be compelled to testify as to how he paid out \$171,000. I am informed that he would prefer not to testify as to payments to men who are now dead.

In the Savage Arms Corporation case, gentlemen of the committee, the campaign started about June 26, 1924. The finances were arranged by the firm of Boesel & Co., giving this man an option without payment on 500 shares, and here is the statement of the option which I say again I will give you for such proper action as you may see fit to take. And I ask that it be identified.

The CHAIRMAN. The committee reporter will mark it the proper number.

(The paper was identified by being marked "Committee Exhibit No. 47," and is as follows:)

#### EXHIBIT No. 47

(Please examine and return immediately if not correct)

#### STATEMENT

It is understood and agreed that all securities carried in this account or deposited to secure the same, may be carried on our general loans, or may be sold and bought at public or private sale, without notice when such sale or purchase is deemed necessary by us for our protection.

Mr. A. N. PLUMMER,

*In account with Noyes & Jackson, New York City:*

Date		Dr.	Cr.	Balance	
				Dr.	Cr.
1924					
May 31	Balance.....		16.35		16.35
June 26	Call on 500 Savage, at 57 expires July, 26 noon.....				
30	Balance.....	16.35			
		16.35	16.35		
30	Long, balance.....		16.35		16.35

Call on 500 Savage, at 57 expires July, 1926, noon.

(Following rubber-stamp impression on statement:)

This statement is mailed by our auditor for verification purposes.

Kindly note any exceptions and confirm at once, in the inclosed envelope to Mr. Hiram E. Decker, C. P. A., 2 Rector Street, New York, N. Y.

Senator FLETCHER. Congressman, you are stating now what somebody has stated to you. You will please give us his name so he may be called.



Representative LA GUARDIA. His name is right on that statement.

Senator FLETCHER. All right, just give it to us.

Representative LA GUARDIA. The publicity man in this case was A. Newton Plummer. He operated under the name of publicity counsel, and also under the name of Institute of Economic Research. Mr. Plummer—

Senator FLETCHER (interposing). How long has he been operating?

Representative LA GUARDIA. I think I have that information here somewhere if I can find it. I believe over 15 years.

Senator FLETCHER. All right.

Senator COUZENS. Where is Mr. Plummer now?

Representative LA GUARDIA. In New York.

Senator COUZENS. Is he out of a job, too?

Representative LA GUARDIA. Yes, sir; very much so, and I will tell you more about the matter in just a minute. And if he were not out of a job I would not have this stuff to-day. [Laughter.]

The CHAIRMAN. You may go ahead.

Representative LA GUARDIA. I think for about 10 or 15 years he was doing this work. I have one account of his here, from 1919, just before the 1921 crash. But the most of his activity, I will say, was during the period of the big boom which ended in the 1929 debacle.

This man Plummer is a very smart young man. He writes this high-powered stuff, and I will leave it with the committee. He had the contacts and this was the *modus operandi*: He would be given a stock and he would send out the stories about the stock.

Senator FLETCHER. You mean by some broker?

Representative LA GUARDIA. Yes. I gave you the name of the Savage Arms broker, and I will give you the name of the broker in each instance here.

Senator FLETCHER. All right.

Representative LA GUARDIA. Then he would be given cash for his necessary disbursements. In this case before us he was also given 500 shares, which he did not pay for, which were the funds used to convince the financial boys that it was a good stock, and that the stories Plummer wrote were good stories and should be published.

Senator CAREY. Did he make those payments to newspapers?

Representative LA GUARDIA. Yes, sir. I will give you the names. I do not know just what happened to Plummer, but the last deal that he had was the Indian Motorcycle Co. And, Mr. Chairman, please remind me to explain to you the Indian Motorcycle stock before I finish, because in that case I can give you every step in this ballyhooing process and show you just how the stock went up and then shot down, just as the promoters got out of it. The case of Indian Motorcycle is a typical case and it is a comparatively recent case. Plummer got out of the business, and then he started a financial magazine, and he commenced telling about those transactions. So Mr. Plummer has been hounded since then, and he has been under indictment in connection with some evidence he was looking up to write some sensational story.

Now, if our friends on the New York Stock Exchange say that Mr. Plummer is not a reputable, honest man, then I submit that they

were using Mr. Plummer for 15 years to write their stuff on their stocks. So they may take their choice on that.

But here are these checks which will tell the story.

Now, we go back to Savage Arms. Here, gentlemen of the committee, is the book which shows the original stories prepared by Mr. Plummer. Copies went to the writers on the newspapers. I have here the clippings from the newspapers which used this stuff and which went out to the investing public in our cities and districts and which were read and by which people were induced to buy this particular stock.

The stores that I have here were used six hundred and five times in 228 newspapers with a circulation of 11,248,000, in 157 cities with a population of 32,399,000. Here is the story. Here are the clippings. Here are the checks he paid.

Now, here is a check for \$50, dated July 24, 1924, made out to Mr. J. F. Lowther, which synchronizes with his story.

Senator BULKLEY. Was it drawn by Plummer?

Representative LA GUARDIA. Yes. Mr. Lowther was then on the New York Herald Tribune, but he is now employed by a stock firm. I ask that that check be identified by being marked as an exhibit.

The CHAIRMAN. The committee reporter will mark it the appropriate number.

(The check referred to was identified by being marked "Committee Exhibit No. 48," and is as follows:)

#### EXHIBIT No. 48

No. 1250.

NEW YORK, *July 24, 1924.*

Central Union Trust Co. of New York: Pay to the order of J. F. Lowther, \$50 (fifty dollars).

A. NEWTON PLUMMER.

(On reverse side of check)

(Indorsed:)

J. F. LOWTHER.

(Rubber stamp impression:)

For deposit only, Equinox House. Pay to the order of The Chase National Bank of New York, Equinox Co.

A. L. O. ORVIS, *President.*

(Also following rubber stamp impression:)

Received payment through City Collection Department. New York Clearing House, July 28, 1924. Prior indorsements guaranteed. Chase National Bank, New York.

The CHAIRMAN. You may proceed.

Representative LA GUARDIA. And here is a check dated July 11, 1924, given to Mr. W. J. Gomber. Mr. Gomber was then with Financial America. Mr. Plummer will be able to tell you how Gomber used the stories of Plummer's stock for these checks. I ask that this check be identified as an exhibit.

The CHAIRMAN. The committee reporter will appropriately number the check.

(The check was identified by being marked "Committee Exhibit No. 49," and is as follows:)

NEW YORK, *July 11, 1924.*

No. 1242.

Central Union Trust Co. of New York: Pay to the order of W. J. Gomber, \$140.50 (one hundred forty dollars fifty cents).

A. NEWTON PLUMMER.

(On reverse side of check)

(Indorsed:) W. J. Gomber. (Signed:) William J. Gomber. (Rubber stamp:) Second teller.

Senator BULKLEY. How much is that check?

Representative LA GUARDIA. It is for \$140.50. You will see that they all participated in this stock account which was opened by the brokers for Plummer for this specific purpose.

Senator BULKLEY. What stock is that?

Representative LA GUARDIA. Savage Arms. Now, here is another check to Mr. Lowther, \$50, dated July 15, 1924.

The CHAIRMAN. Let me see that check.

Representative LA GUARDIA. Certainly.

The CHAIRMAN. As to this check to W. G. Gomber, isn't he employed by the Wall Street Journal, which is panning this committee for this investigation?

Representative LA GUARDIA. I would not be surprised.

(The check referred to was identified by being marked "Committee Exhibit No. 50," and is as follows:)

No. 1243.

NEW YORK, *July 15, 1924.*

Central Union Trust Co. of New York: Pay to the order of J. F. Lowther, \$50 (fifty dollars).

A. NEWTON PLUMMER.

(On reverse side of check)

(Indorsed:) J. F. Lowther.

Pay the Chatham & Phenix National Bank, or order. Gumpertz & Co. (Inc.). 1607.

(Another rubber-stamp impression:)

Received payment through city collection department, New York Clearing House. Prior indorsements guaranteed. July 16, 1924. The Chatham and Phenix National Bank of the city of New York. L. E. Jones, cashier.

The CHAIRMAN. You may go ahead, Congressman.

Representative LA GUARDIA. Now, Mr. Chairman and gentlemen of the committee. I have here three checks dated July 31, 1924, July 17, 1924, and July 7, 1924, in the amounts of \$1,000 and \$300 and \$600, respectively, made out to cash and given to the pay-off man; and it is stated that he in turn paid it to other financial writers who were ticklish about taking checks. Without permission, Mr. Chairman, I do not care to disclose at this time the name of the pay-off man, but I will give it to the committee. This man is available, but there are good reasons, physical and otherwise, why I do not care to disclose his name at this time. Any time the committee calls, Mr. Chairman, I will give you the name.

Senator FLETCHER. Those are three checks payable to cash?

Representative LA GUARDIA. Yes, sir; he paid out the cash to other newspaper writers, who took the fake stories concerning the stock and turned them in to their papers as "financial news."

Senator TOWNSEND. What is the total amount of the checks?

Representative LA GUARDIA. The total amount is \$1,900 for this particular stock—

Senator FLETCHER. Do they bear indorsements?

Representative LA GUARDIA. Yes, sir; paid out in cash to six other newspaper financial writers.

Senator WALCOTT. What year was that, 1924?

Representative LA GUARDIA. Yes, sir.

Senator BARKLEY. What are the amounts of the checks?

Representative LA GUARDIA. They are for \$1,000, \$300, \$600.

Senator BARKLEY. What was the name of the broker in that case?

Representative LA GUARDIA. My information is that the brokers were Boesel & Co. and Jackson Bros.

The CHAIRMAN. You may proceed, Congressman.

Representative LA GUARDIA. I will say that there was another Savage Arms ballyhoo promoted by these same gentlemen, and here we have the clippings used all over the country, which were followed by purchases of the stock.

Senator BULKLEY. What date?

Representative LA GUARDIA. This was in November of 1924. This was along in the summer of 1924. I have a check for \$800 which is a part of another cash payment. And here is a check for \$268, and this particular financial writer also participated in this pool, and this check is indorsed by Mr. Richard Edmondson, who was then on the Wall Street Journal. I am sure that Mr. Edmondson would be glad to explain to this committee why he received \$268 from Mr. Plummer, who was plugging Savage Arms stock at the time. May I have that check identified?

The CHAIRMAN. Yes.

(The check was identified by being marked "Committee Exhibit No. 51," and is as follows:)

NEW YORK, December 5, 1924.

No. 1564.

Central Union Trust Co. of New York: Pay to the order of cash, \$268. (two hundred sixty-eight dollars).

A. NEWTON PLUMMER.

(On reverse side of check:)

(Indorsed: for deposit, Richard Edmondson.

(Rubber stamp impression:)

Received payment through City Collection Department, New York Clearing House, December 6, 1924. Prior indorsements guaranteed.

(Balance of rubber stamp undecipherable.)

The next financial expert's fee is the check dated December 5, 1924, for the amount of \$184, indorsed by Mr. Charles T. Murphy, who was then with the New York Evening Mail writing financial information for the newspaper.

Senator BARKLEY. Let me ask you there, did any articles appear in the Wall Street Journal under the name of this gentleman who received the \$258?

Representative LA GUARDIA. •Yes; I have all the clippings.

Senator BARKLEY. Corresponding to the date of this check?

Representative LA GUARDIA. Yes.

Senator BARKLEY. And in the case of this last check you gave us, did any articles appear in the New York Mail corresponding with that?

Representative LA GUARDIA. Oh, certainly; otherwise he would not get the check.

Senator BARKLEY. Well, I know. I want to see if the articles and checks correspond as to date.

Representative LA GUARDIA. And with the original text turned out by this bureau.

(The check indorsed by Charles T. Murphy was designated "Committee Exhibit No. 52," and is as follows:)

## EXHIBIT No. 52

No. 1562.

NEW YORK, *December 5, 1924.*

Central Union Trust Co. of New York: Pay to the order of cash, \$184 (one hundred and eighty-four dollars).

A. NEWTON PLUMMER.

SAVAGE ARMS.

(On back of check)

(Indorsed:) Charles T. Murphy. Paid by New York Trust Co., December 9, 1924.

Representative LA GUARDIA. I have here another check for \$209 indorsed by Mr. William J. Gomber.

The CHAIRMAN. Is that the same Gomber?

Representative LA GUARDIA. Yes; that is the same Gomber in Financial America.

(Check indorsed by William J. Gomber was designated "Committee Exhibit No. 53," and is as follows:

## EXHIBIT No. 53

No. 1577.

DECEMBER 18, 1924.

Central Union Trust Co. of New York: Pay to the order of Cash, \$209 (two hundred and nine dollars).

A. NEWTON PLUMMER.

(Back of check)

(Indorsed:) William J. Gomber. Paid December 17, 1924, Central Union Trust Co. of New York.

Representative LA GUARDIA. And here is another check for \$200 paid out by the same promoter of the Savage stock, and indorsed by Mr. W. F. Wamsley, who was then with the New York Times, and I am reliably informed is no longer with that paper.

(Check indorsed by W. F. Wamsley was designated "Committee Exhibit No. 54," and is as follows:)

## EXHIBIT No. 54

No. 1578

NEW YORK, *December 20, 1924.*

Central Union Trust Co. of New York: Pay to the order of cash \$200 (two hundred dollars).

A. NEWTON PLUMMER.

(Back of check)

(Indorsed:) W. F. Wamsley. Paid December 22, 1924, Federal Reserve Bank of New York.

Representative LA GUARDIA. And I must pause here to state that any writer who would take money in that manner not only deceived the public, but he deceived his own editors, I am pretty sure.

And here is another check for \$800 which was used to pay out seven other financial writers and public services giving out canned information for these gentlemen of the New York Stock Exchange.

(Check indorsed by A. Newton Plummer and Herbert J. Dotterweich was designated "Committee Exhibit No. 55" and is as follows:)

## EXHIBIT No. 55

No. 1563.

NEW YORK, *December 5, 1924.*

Central Union Trust Co. of New York: Pay to the order of cash \$800 (eight hundred dollars).

A. NEWTON PLUMMER.

(Back of check)

(Indorsed:) A. Newton Plummer; Herbert J. Dotterweich. Paid at Central Union Trust Co. of New York, December 5, 1924.

Senator COUZENS. Have you the names there?

Representative LA GUARDIA. Well, it is cash, and I would rather have the man who paid out the cash testify to that. I have the names, but I will not use them. The pay-off man can testify and identify these writers to whom he paid the money. I will only use the names of writers who indorsed checks.

Senator WATSON. Will you give us the date of that

Representative LA GUARDIA. That is December 5, 1924. That is the second Savage operation.

Now we come to another one, Pure Oil.

Senator COUZENS. Is that one of the Dawes concerns?

Representative LA GUARDIA. I have been so told.

Senator GLASS. Any tariff on it?

Representative LA GUARDIA. Not at that time.

Well, gentlemen, I will run along rapidly now. Here are the original stories sent out to peg this particular stock; boom it up. Here are the clippings used, and here are the checks.

Senator COSTIGAN. The original story should be marked as an exhibit, should it not?

Representative LA GUARDIA. Yes; they are all here. There are three checks dated January 9, 1925, January 8, 1925, January 28, 1925, respectively, for the amounts of \$400, \$600, and \$800, respectively, made out to cash, cashed by the same pay-off man I referred to before, whose name I will be glad to give to the chairman to ascertain to whom he paid this money and for what purpose. I have the names. I have here the other checks in the Pure Oil transaction, one dated January 20, 1925, for \$468, indorsed by Mr. Richard Edmondson, of the Wall Street Journal. Another, for \$100, indorsed by Mr. J. F. Lowther, of the Herald-Tribune.

Another, for \$184, by the same J. F. Lowther, of the Herald-Tribune.

And another, Mr. William White, of the New York Evening Post.

Senator BARKLEY. How much is that?

Representative LA GUARDIA. That is \$184.

And another of Charles T. Murphy, of the then Mail, and another for \$284, Mr. William J. Gombor, of Financial America.

Senator BARKLEY. Do you know how the amount of these payments was arrived at?

Representative LA GUARDIA. Yes; in this instance by participation in pools, by accounts opened by the stockbroker in the name of the publicity man.

Senator BARKLEY. That is, these checks then, if I understand, represent their share of profits that were made out of the operation?

Representative LA GUARDIA. No. In some cases cash was given to this clearing house that would write the articles and play the stock

up. When cash was given we find the amounts, \$100, \$200, even numbers. Other times, instead of giving cash they would open an account, for instance, in the name of Mr. Plummer for so many shares of stock, and of course they would play that stock, and when it got up would sell it, and they would divide.

Senator BARKLEY. What I was trying to find out is whether these checks represent money paid to them for the writing of these favorable articles or whether they were checks representing their share of profits made out of the stock by reason of the favorable articles.

Representative LA GUARDIA. For using articles favorable to the stock they got cash or participation in an option or a small pool.

Senator BARKLEY. You say it is both ways?

Representative LA GUARDIA. Yes. They did not invest or risk any money in these transactions.

Senator BARKLEY. Somebody must have invested some money or they could not have bought the stock. How could they buy the stock?

Representative LA GUARDIA. The stockbroker would just open an account for them or simply give Plummer an option for so many shares.

Senator GORE. In either case it was payment for the propaganda and publicity?

Representative LA GUARDIA. What is that?

Senator GORE. In either case it is payment for propaganda and publicity rather than representing payment direct?

Representative LA GUARDIA. Yes. That is the only conclusion which can be reached.

Here is the original story boosting the stock. [Exhibiting clippings.] Here are the clippings taken from this story, and here are the checks indorsed by the newspapermen.

Senator GORE. I understand. Can you tell from your record whether it was payment for the publicity as a service, whether it was a declaration of profits on the stock transaction, or what it was for?

Representative LA GUARDIA. Oh, of course, these financial writers could not accept any money for service. This was news that they were supposed to be writing, Senator, not ads. That is why payment to them is so shocking.

Senator GORE. I meant this service or publicity.

Representative LA GUARDIA. Plummer was invariably retained to get publicity out for brokers or pools interested in a particular stock. He in turn paid newspaper men to use his stuff. But these men were supposed to be writing news articles, financial news articles.

Senator GORE. Yes; and were paid for the news and publicity in connection with the news and did not receive profits accruing from the stock manipulations in connection with which the publicity was furnished?

Representative LA GUARDIA. In the Savage Arms case the money which they received ostensibly was the result of an account opened in the name of the publicity firm. They received money but they invested no money.

Senator BARKLEY. Let me ask you there——

Representative LA GUARDIA. They received this gratuity.

Senator BARKLEY. You say they opened an account with a broker?  
Representative LaGUARDIA. Yes.

Senator BARKLEY. Did these operations represent operations that actually transpired in the stock exchange, or was it merely a book-keeping operation within the office of the broker?

Representative LaGUARDIA. The broker will have to testify to that.

Senator BARKLEY. You do not know? The name of the broker is right on the statements.

Senator GLASS. What brokerage houses employed this man Plummer?

Representative LaGUARDIA. Well, now, we are talking about Pure Oil.

Senator GLASS. In all three of the cases you have mentioned, Savage Arms, Pure Oil, and the other?

Representative LaGUARDIA. Well, I will give you Savage Arms. That was this Jackson Bros., Boesel & Co., and in Pure Oil it was the Chase Securities Corporation.

Senator TOWNSEND. These gentlemen are members of the stock exchange?

Representative LaGUARDIA. Jackson Bros., Boesel & Co., are.

Senator GLASS. And Indian Motorcycle?

Representative LaGUARDIA. Motorcycle is Hansell & Co. I will come to that in a minute.

The CHAIRMAN. While you have mentioned Savage Arms, I want to refer back to the testimony of Bernard Smith when he appeared before this committee a few days ago. I will read the following. Mr. Gray, the attorney, says:

By the way, have you ever been a specialist in any stock, and, if so, tell me which one?

Mr. SMITH. I was a specialist in United States Realty, Tidewater Associated, Savage. I think that is about all.

Senator BLAINE. Mr. LaGuardia, did you say Jamerson Bros.?

Representative LaGUARDIA. Jackson.

Senator BARKLEY. Has the Chase Securities Co. any relationship with the Chase National Bank?

Representative LaGUARDIA. I do not know what they would say about that to-day. In the boom days the relationship was very close.

Senator FLETCHER. The question would be, Mr. LaGuardia, whether these men who received these checks were let in the pool. Did they become a part of the pool?

Representative LaGUARDIA. Only to a small extent, enough to pay them for using the prepared faked stories. The pool was a pretty big thing.

The CHAIRMAN. Isn't there something there to prove that they were given options on the stock to promote it and if the price went high they had a chance to sell, and while the stock was down they could buy it?

Representative LaGUARDIA. Senator, I think they got the money any way.

The CHAIRMAN. Yes, and I think you have proof there that they had options and participated in it.

Senator FLETCHER. The question is whether they were paid this money in order that Plummer might get to the public this propaganda.



Representative LaGUARDIA. Certainly.

Senator FLETCHER. Or whether they were participants in the pool.

Representative LaGUARDIA. No; they were given these gratuities in order to facilitate getting the stories boosting the stock in their respective papers.

Senator FLETCHER. How was Plummer paid and how much was he paid then during these operations? Was he on a salary?

Representative LaGUARDIA. No; on retainer, retainer for each case. Now, for instance, here is a retainer right here dated July 28, 1924. I think this will answer the question:

MR. A. NEWTON PLUMMER,  
*New York City.*

DEAR SIR: I am in receipt of your letter of this date confirming arrangement with me for handling the publicity work on Pure Oil for one month, for which you are to receive \$2,500 in cash, check for which was sent to you to-day.

In other words, there was the \$2,000 that he was to have for disbursements. I think this will answer your question, Senator [reading]:

I also hereby confirm giving you an option on 500 shares of Pure Oil common at 25 and 500 shares at 25½, good for 30 days from date hereof.

Senator FLETCHER. Who is that signed by?

Representative LaGUARDIA (reading):

I note from your letter that you consider the first month as running from this date to September 1.

That is signed by O. L. Gubelman and initialed "M," and the letterhead is "Oscar L. Gubelman, 61 Broadway, room 503, New York City."

Senator TOWNSEND. Is he a member of the stock exchange?

Representative LaGUARDIA. I do not know, sir.

Senator CAREY. Who is Mr. Gubelman?

Representative LaGUARDIA. I think I have a memorandum on that. He was acting for Pure Oil. That is all I know. In that case may I state that the scrap book of the clippings was delivered to Mr. Gubelman?

Senator GORE. The first transaction, \$2,500, was cash and was regardless of the success of the thing; it was not contingent on success?

Representative LaGUARDIA. No.

Senator GORE. The stock option, I take it, was if stock went up?

Representative LaGUARDIA. Certainly. And it was this man's job to bring it up.

Senator FLETCHER. Could you give us the date of that letter?

Representative LaGUARDIA. Yes, Senator. I have it marked July 28, 1924.

Senator BARKLEY. I suppose the fact that he was given this option for 30 days entitled him to determine in that 30 days whether he wanted to take advantage of the option, depending on whether it went up or not?

Representative LaGUARDIA. Of course he paid nothing for the option. Just took the difference between the amount stated and market price any time during the option.

Senator GORE. Do you know whether the movement succeeded or not, Mr. LaGuardia?

Representative LaGUARDIA. Yes.

Senator GORE. And how far did Pure Oil go, do you know?

Representative LA GUARDIA. I understand that all these were successes.

Senator GORE. You do not know how high Pure Oil went in that movement?

Representative LA GUARDIA. I can not tell without looking it up and it would take quite a few minutes. Of course, its market price on any given date is easily ascertained.

Senator GORE. Easily ascertained; yes.

Representative LA GUARDIA. Now, here we have, gentlemen, Superior Oil, and there is \$1,000 paid off. This was paid out in cash. I will give the chairman the name of the pay-off man. And here we have one check paid. We have the cashed check here and it is the same story.

Senator FLETCHER. What case is that?

Senator GORE. Give the date.

Representative LA GUARDIA. Yes. May 23, 1924. Superior Oil.

Senator WATSON. What was the duration of that publicity, Congressman, and what was the effect on the price, on the market price of that stock?

Representative LA GUARDIA. My information is, of course, and that is subject to verification and that is very easily verified—

Senator WATSON. I thought perhaps you might have it.

Representative LA GUARDIA. No; but it states that in every instance it was successful—to everybody but the investor, of course.

Senator WATSON. Of course.

Representative LA GUARDIA. The next case takes us to April 10, 1923, Simms Petroleum for George F. Breen. All we have there is the payment for his services of \$1,000, and I do not believe that is very exciting just now. Here are the clippings and the original story [exhibiting].

Senator GLASS. Who is Breen? With what paper is he connected?

Representative LA GUARDIA. No. Breen was the gentleman who retained this publicity bureau, Senator, and these are all cash transactions. I have here 280 clippings from 111 papers with 12,540,000 circulation in 67 cities with 27,143,000 population.

We will go away from oil for a minute, and the next case is—

Senator GORE (interposing). You do not have anything later on Superior Oil?

Representative LA GUARDIA. No, sir.

Senator GORE. I think they have changed the name of that, Mr. LaGuardia, to "Inferior Oil."

Representative LA GUARDIA. Is it? Well, now, that would be very interesting.

Senator BARKLEY. What about Pure Oil? What did they change it to?

Senator COUZENS. "Reconstruction."

Representative LA GUARDIA. That is interesting. Senator, with reference to the Superior Oil, now down to two bits, this is the kind of stuff he would send out:

MAY 23, 1924.—The production of the Superior Oil Corporation is now averaging better than 4,000 barrels of 39° oil daily, according to the official statement by H. G. Davis, president. This is an increase of approximately 200 per cent since the first of the year. This is the first result of Superior Oil's new expansion policy, which indicates the extensive development of recently

acquired properties in the Mid-Continent field. The company's Kentucky leases continue to produce on a profitable basis, and the commencement to-day of a very aggressive drilling campaign now under way in Oklahoma indicates the output in 1924 will be substantially increased over present daily runs.

A 60-acre lease in Seminole County, Okla., in what is known as the Cromwell pool, which was purchased on February 24 for \$18,000, is considered a very valuable lease.

Mr. Davis said: "Several flattering propositions for a half interest in this lease were included."

Now, for instance, here is a clipping just taken at random:

As might be expected, the shares of the corporation have shown unusual strength following the decision. They held firm throughout yesterday's session, despite the general selling pressure exerted against oil shares—

And so on.

Senator GORE. I know a person very intimately who bought that on the basis of \$25 a share and sold it for 75 cents a share.

Representative LA GUARDIA. The next is Consolidated Laundries, gentlemen.

Senator BULKLEY. Is that a listed stock?

Representative LA GUARDIA. Yes; it must have been.

Senator TOWNSEND. All of these stocks about which you have spoken are listed?

Representative LA GUARDIA. Yes. Otherwise they would not ballyhoo them. For instance, Laundry started off with a statement:

A \$7,000,000 power laundry merger of companies in New York and New Jersey is in the process of formation. According to interests identified, it is one of the largest laundry corporations in the country. It is understood that companies in other Eastern States will be included at a later date, which will bring the total capitalization to above \$10,000,000.

My information is that \$1,800 was paid in cash. I will give the name to the chairman as in the other cases, and the committee can run it down.

Senator FLETCHER. Paid for what?

Senator GLASS. Publicity.

Representative LA GUARDIA. Publicity. Boosting the stock and getting the fake stories across in the daily and financial papers.

Senator GLASS. In the same way as these other writers?

Representative LA GUARDIA. Yes, sir. Now, gentlemen, this is interesting. The Maxwell Motor. These boys specialized in several motor companies, now all out of business. This is also cash transactions, and the amounts here are pretty high. The amounts alleged to have been paid out are \$600 to each of the writers, and there are nine. That is \$5,400. Nine financial writers plugging Maxwell Motors stock—investors lost heavily.

Senator FLETCHER. Give us the date of that.

Representative LA GUARDIA. March 8, 1923.

While this campaign was being conducted in the newspapers, a list of the stockholders of this corporation, which is supposed to be sacred, was given to the publicity man, and while he was urging the purchase of stock with the stories that were being sent out and published in newspapers, another kind of letter was being sent to the stockholders to hold their stock and suggesting it would be ill-advised to sell it at the time, in order not to have stock of the stockholders on the market during the rising market, created by this artificial stimulus of the high-pressured publicity stories that were

being sent out. Then some of the directors and pools unloaded leaving, as usual, the stockholders holding the bag.

Here is the story and here are all the clippings [exhibiting]. I don't know how many there are.

Senator GORE. Was that some brokerage firm did that?

Representative LA GUARDIA. Yes.

Senator GORE. Who was it?

Representative LA GUARDIA. Chase Securities Corporation.

Senator GORE. Advised stockholders to hold while they were carrying this on?

Representative LA GUARDIA. Yes, sir. And here is the stockholders' list. They just handed this agent, this publicity man, a list of stockholders to use in connection with the dirty work. If a stockholder applies to get a list like this he has to go to court. The company would not let him have it.

Senator GORE. Do you know whether that was ever called to the attention of the governing board of the stock exchange?

Representative LA GUARDIA. Well, if it was, nothing would happen; I can tell you that.

Senator BARKLEY. That is the Laundry Co.?

Representative LA GUARDIA. No, gentlemen; Maxwell Motors. And this finally petered out. In this case stockholders were finally wiped out, I understand.

Senator COUZENS. Have you any information about what you have been giving us later than 1923 or 1924?

Representative LA GUARDIA. Yes; I shall give a 1930 case in a moment. The reason I thought these were typical, Senator, is that that is the time that all this inflation, this boosting, was going on.

Senator BARKLEY. I happen to recall that Maxwell Motors went up almost at skyrocket speed at a certain time back about that time. What year was that?

Senator WALCOTT. March, 1923.

Representative LA GUARDIA. That is 1923. For instance, in the four scrapbooks [exhibiting] that are here, there are 1,400 clippings from 475 papers with 17,698,858 circulation in 295 cities with 35,500,000 population.

Senator CAREY. Is that company defunct now?

Representative LA GUARDIA. Yes; I understand they are wiped out entirely.

Senator CAREY. What happened to the stockholders?

Senator FLETCHER. Who were the brokers for that concern?

Representative LA GUARDIA. Chase Corporation. I have something on that, too. Then I have another one here, gentlemen. I am not going to give you all of this at once. If the committee is not tired we can go through the whole operation of the scheme to bring up stock.

We will take the Indian Motors case, which is recent (1930).

Senator GLASS. Mr. Congressman, may not Mr. Whitney respond to your charge of misrepresentation by saying that since he has been president of the stock exchange all of this sort of thing has been corrected? Have you any late dates?

Representative LA GUARDIA. Yes. This one here is 1930. He was president then. He was president when they brought to his attention the Hayden-Stone case. He has been on important committees of the exchange all during this time.

Let us start off with Indian Motors.

Senator GLASS. I am told that Mr. Whitney was chairman of the business conduct committee for 12 years.

Representative LaGUARDIA. Of course, you understand, gentlemen, that the members of the business conduct committee pass on each other's misconduct.

The original Indian Motorcycle Co. was sponsored in October, 1913, by Kidder-Peabody Co., Boston, under the name of Hendee Manufacturing Co., and the corporate name was changed to Indian Motorcycle Co. in 1923.

Senator GORE. What was it prior to that?

Representative LaGUARDIA. The company's limited capital of only 100,000 shares of common stock made it an ideal toy for manipulation. In December, 1929, Hansell & Co. opened a deal in the stock. This firm was headed by Howard F. Hansell, jr., who took Harry Content, a member of the New York Stock Exchange, with him. Content is a floor broker. The hundred thousand shares capitalization stood unchanged until Hansell, Content, and Wilder assumed the rôle of market pilots in December of 1929, when on the 26th day of December, 1929, the New York Stock Exchange admitted the listing of 40,000 shares of additional stock, which was authorized by the directors to be sold to Hansell & Co. at \$5 a share. And this is the first exhibit, the Indian Motorcycle Co., committee on stock list, New York Stock Exchange, authorizing 40,000 shares.

Senator WATSON. What was the date of that, please?

Representative LaGUARDIA. 1929; December 19, 1929.

So we start off with 40,000 shares. The board of directors at that time included the following: Norman T. Bolles, Roy G. Lane, both of Springfield, I think they were in the original company. Dickson of Pennsylvania and McCoach of Philadelphia, attorneys for Drexel & Co.—I don't see what that has to do with it—William W. Tracy, of South Orange, Charles E. Mitchell, New York—not the Mitchell of the National Bank—Harry G. Dodge, of Belleville, N. J.

Now, gentlemen, when an operation of this kind starts, these men get themselves elected on the board of directors. A few years ago when the transit commission of our city was investigating or studying the possibilities of a merger of our transportation companies, Mr. Samuel Untermeyer disclosed that of the 300,000 shares of the Interborough the whole board of directors owned only 130 shares, and when he endeavored to approach the stockholders in order to get the consent for a merger he found that the majority of the stock was held in the name of brokers but never transferred over to the owners.

And that is what was done in this case. Wilder and Hansell and I think Content—I will come to it in a minute—got themselves elected to the board.

During 1929 and 1930 not much happened. On November 30, 1929, only 500 shares were traded that day at \$5. That becomes significant. From this point on the drive started. On January 4, 1930, the volume of trading increased to 3,700 shares, with a price of but \$4 a share. On January 11 it went up to \$7.50 a share. That was the groundwork for the marketing of the 40,000 shares which remained dormant in that period. Then the publicity started, and the first shot was a story in the local papers of the success of

the company, which was reproduced and distributed through the mail.

Senator COUZENS. Who was that?

Representative LA GUARDIA. That was the Springfield Union, of Springfield, Mass., January 9, 1930.

Senator COUZENS. Who wrote the story?

Representative LA GUARDIA. The publicity man.

Senator COUZENS. What is his name? Have you mentioned it?

Representative LA GUARDIA. Yes; Plummer.

Senator COUZENS. Oh; Plummer all the way through.

Representative LA GUARDIA. Then the next publicity step was the sending out of this circular:

Indian Motorcycle Co. Ticker symbol IMY. Under new management.

That was broadcast through the company with a postcard attached to find out if the recipient of this circular was interested.

Senator WATSON. How much later was that, Congressman? Let us keep the chronology of it. Let us have the date.

Representative LA GUARDIA. January, 1930. Then they started to operate through the Boston News. This printed matter which I exhibited was sent to the stockholders in the meantime. Here is a list of the stockholders that was circularized.

Senator GORE. About how many, Mr. LaGuardia; do you know?

Representative LA GUARDIA. No; I have not counted them, sir. Here is a return card from a gullible holder up in Bath, Me., who owned 40 shares and ordered 200 more.

Senator FLETCHER. Does it give the price there? What was he paying for it then?

Representative LA GUARDIA. Six and three-eighths at that time. Then the Boston News Bureau circularized the papers with a story:

Orders 65 per cent ahead of business a year ago. Expected to reach monthly output of over 3,000 vehicles by March. Financial position improved.

Then Hansell & Co. circularized their customers with a letter in-chase regarding that statement. Then the Wall Street Journal on January 16, 1930, had exactly the same story:

Indian Motorcycle outlook improved. Company orders on hand 65 per cent over last year. Outboard product developed.

And so on, and that was reproduced and sent out.

Then to the promising customers a night letter was sent out reading:

Indian Motorcycle on the stock exchange now. Good proposition for further substantial advance, as profit taking has been absorbed, and immediate purchase advised to take advantage. Next move to \$15 level, which is justified by 40 per cent increase of January sales and prospects of \$3 this year.

That was sent out by Hansell & Co.

Then this prospectus, "Indian Motorcycle and its Common Stock," was prepared by Hansell & Co. Here are some of the clippings.

Now then, there was no real market for motor cycles at the time, so they could not keep the proposition up, and what did they do? They went to London and contacted Mr. Coatalen, who is a well-known motor manufacturer, stands very high, and they purchased from Coatalen an air motor which had never been developed, that was simply not even in the blue-print stage, but he did receive a patent for this Diesel air motor, and they purchased the American rights of this air motor for I think it was 50,000 shares of the stock,

with the understanding that he was to give half of the profits to Wilder and the gentlemen on the board who negotiated its contract.

A story in the Daily Mail of London on Saturday, February 1, 1930: "British oil motor engine, fire risk banished, can transport safely and cheaply," was exploited, photostated, and reproduced in this country, and in that story of the development of this Diesel air motor the 40,000 shares was dumped on the American public. As far as I know, the motor has never been developed.

Mr. Coatalen came to this country. My information is that he saw what was going on, delivered his contract, took his shares of stock, cashed in on them, and went back to England very much disgusted.

And now, an indication, gentlemen, of just how this works: As I stated, on November 30, 1929, 500 shares were traded in. The high was  $5\frac{7}{8}$  and the low was  $5\frac{1}{8}$ . December 7 there was 600 shares,  $5\frac{1}{2}$  to  $5\frac{1}{8}$ .

Now I will jump a few days. We go to January 11 and it was 18,700; the high was  $7\frac{1}{2}$ ;  $5\frac{1}{4}$  was the lowest.

Then we go to February 1, 662,000;  $9\frac{1}{4}$  high;  $5\frac{1}{2}$  low.

We go to February 22, 38,100 shares;  $10\frac{1}{2}$  high,  $8\frac{7}{8}$  low.

Senator COUZENS. Is that all on the same day that that happened?

Representative LA GUARDIA. Those ranges are high and low on that day.

Senator COUZENS. On the same day?

Representative LA GUARDIA. On the same day.

March 1, 109,800 shares were sold at  $12\frac{5}{8}$ , and the low was  $9\frac{1}{2}$ , the result. I think, of the exploitation of the Coatalen invention.

Then the high peak was reached on March 8 at 171,800 shares. The high was 17; the low was 9.

And then from March 8, just a slow drop to 31,000, 33,000, 49,000, 88,000, 19,000, 37,000 shares they are selling, selling, down to January 28, 5,900 shares were sold for  $5\frac{1}{2}$ . That is just where we started on November 30, 1929.

Senator BULKLEY. What is the last date?

Representative LA GUARDIA. That must be June 28, 1930. It started January 4, 1930. It ended June 28, 1930, just lasting six months during this drive. It reaches the high peak; then down it comes; publicity is over; publicity man cashes his money. Coatalen goes back to England. And the American investors have been stuck with the stock.

Senator TOWNSEND. What is the name of that Englishman?

Representative LA GUARDIA. Coatalen.

Senator TOWNSEND. That is the man from London?

Representative LA GUARDIA. Yes.

The CHAIRMAN. If you have concluded your statement, I would like to ask you a few questions.

Senator WATSON. What happened to that stock afterwards, we all are asking you?

Representative LA GUARDIA. It is down to about three-fourths of a point. I do not think it is much good, like everything else.

Senator WATSON. After June?

Representative LA GUARDIA. Now, gentlemen, I simply want to point out this—

Senator BARKLEY (interposing). This Coatalen that you spoke of, did he make money out of the transaction?

Representative LA GUARDIA. Oh, he got cash.

Senator BARKLEY. Is that what disgusted him?

Representative LA GUARDIA. Well, I think he—

Senator COUZENS. What was this Plummer indicted for? You did not tell us that when you started out.

Representative LA GUARDIA. I have that here.

Senator FLETCHER. Was he concerned in General Motors?

Representative LA GUARDIA. I don't know. I think, Senator Couzens, his story is that he was trying to show that it was possible to—he was writing a story called "The Great American Swindle." He says:

To obtain this information first hand I had to play the rôle of a criminal and succeeded so well that I was caught in a police net which has been spread out for six months.

He must be a good actor. It seems that he had some securities, I think, he was trying to show that they were forged securities, in circulation.

Senator COUZENS. And he was arrested and indicted for it?

Representative LA GUARDIA. Yes; and indicted.

Senator COUZENS. And his trial has not come off?

Representative LA GUARDIA. No.

Senator COUZENS. How long ago since he was indicted, do you know?

Representative LA GUARDIA. I think he started to write his articles last summer, Senator, and shortly after he started to write his articles, he was indicted.

Senator COUZENS. Do you know what is causing the delay in the trial?

Representative LA GUARDIA. No, sir.

Senator BLAINE. Was it a Federal or State indictment?

Representative LA GUARDIA. State.

Senator FLETCHER. What court, what State, what jurisdiction?

Representative LA GUARDIA. New York City, general sessions.

The CHAIRMAN. You referred to the Boston News Bureau here. Do you know whether that is owned by the Wall Street Journal too?

Representative LA GUARDIA. I do not.

Mr. Chairman, I will be glad to leave these clippings with the committee. I am a little worried about these checks; not that I was afraid that anybody would take them away from me, but I do not want to lose control of them. Now you have them.

Shocking as these facts may seem, gentlemen, I believe that the same sordid story could be told about nearly every stock in which there has been a pool and in which there have been efforts to shoot up the price.

The same thing, gentlemen, if I may suggest, took place with the Kreuger stock. It was impossible for any grown-up man to read their collateral agreement on which these debentures were issued without knowing that at any time the company could remove the good security and replace it with what? With other securities of equal "par value," not of equal "market value," but of equal par value. So that the inevitable, of course, took place. The good securities were removed and bonds of absolutely no market value, no intrinsic value, but having on their face the value printed, were put in their place.



Gentlemen, 38,000 investors, American investors, bought the Kreuger bonds, and I am informed that over 300,000 purchased the Kreuger stock.

And it is at this very time, gentlemen—perhaps I have a little feeling in the matter—that stories are sent out but if it were not for Congress there would not be a decline in the market. Now, I submit that decent, unsuspecting American citizens, many of them retired business men, school-teachers, doctors, lawyers, dentists, read these articles. They have faith. They believe what is being told them by so-called big industrialists or big bankers or big men on the stock exchange. And the result is that the American public has been mulcted of \$2,000,000,000 in South American securities alone and several hundred million dollars in European securities, besides what they have lost on this kind of trash that you have seen here to-day.

And then they blame Congress because we have a deficit in our Budget, which is the result, of course, of people having lost their money and unable to pay income tax.

Gentlemen, it is unpleasant to come here and tell this kind of a story.

Senator GLASS. Do you know of any kindred publicity that was employed in the Anaconda copper deal?

Representative LA GUARDIA. No. I suspect that the gentleman who promoted that publicity has not been indicted, and therefore he has not contacted me yet. I hope he does, Senator.

Senator GLASS (interposing). He is up in your town. It ought to be easy for you to contact with him.

Representative LA GUARDIA. Well, Senator, as you know, we have other avenues and streets in New York City besides Wall Street. Thank God for that.

The CHAIRMAN. One other matter, Mr. LaGuardia: Do you recall what Mr. Plummer said he had received in total for his publicity in promoting stock?

Representative LA GUARDIA. Yes. I do not know what he received, but I gave what he paid out, sir. I gave that to-day.

Senator GLASS. Two hundred and odd thousand dollars.

Representative LA GUARDIA. Yes. I have that here.

Senator FLETCHER. \$286,279.

Representative LA GUARDIA. Yes; that is in the record, Mr. Chairman.

Senator BARKLEY. Do you have any evidence of instances in which similar methods were adopted in promoting the decline of stocks?

Representative LA GUARDIA. No; that takes care of itself. It is just like aviation. It is easy to come down. But you do need a motor to go up.

Senator BARKLEY. Well, presumably the same sort of depressing publicity which drove stocks down then would correspond to an optimistic publicity that pushed them up?

Representative LA GUARDIA. No; I think that when the truth is learned they come down by themselves, Senator.

Senator BARKLEY. That might be in many cases, but would there be an incentive to tell as much of an untruth about the stocks in order to depress them as there would be to tell an untruth about them to make them go up?

Representative LA GUARDIA. Yes; if you were on the short end.

The CHAIRMAN. And is not the same thing being done in rigging the market by the bears as you have described here by the bulls?

Representative LA GUARDIA. Only with reverse English.

Senator WALCOTT. Do you think there is organized publicity on the down side to help short raids?

Representative LA GUARDIA. I think there is organized publicity on the down side just as there is on the up side. As I have demonstrated to-day, I think there is organized publicity, gentlemen, on every bit of legislation that we have that affects the certain gentlemen that I have referred to to-day. There is organized publicity right at this minute on the tax bill. There is, absolutely, publicity and misrepresentation being sent out on the deficiency. I suppose you gentlemen have received a letter from the du Pont Co. That letter is being copied by other large corporations and sent to their stockholders. It is full of misrepresentations. It ignores entirely the debt service. It talks about the appropriations in the Department of Agriculture and nobody more than du Pont was interested in that first road-building program that we had that took \$124,000,000, but he ignores it entirely.

That is what Congress is up against. And then they say "Let Congress adjourn and we will have good business; we will have good times." We were not in session last summer and business was never worse than it was then.

The CHAIRMAN. And they clamored, "Congress, come on and pass some relief measures."

Representative LA GUARDIA. Why, there has not been an original idea coming from a single banker in this country during all of this depression. There has not been one wholesome suggestion, one truth borne by any of these gentlemen talking for the New York Stock Exchange. Why, things have just gone their way. Why? Because the American public wanted to buy? Not at all. Because the American public was deceived.

Why, gentlemen, you take Lee Higginson, selling Kreuger stock. Let us assume that Mr. Whitney, instead of being president of the stock exchange, was president of a grocery association. And let us assume that Lee Higginson, instead of selling Kreuger bonds, was selling canned beans. If either of them had misrepresented the contents and weight of the beans the way that they were dealing in and selling bonds, they would be under indictment and in jail at this time. And yet there is no regulation, there is no supervision, when they go out and take the savings of the American people.

The CHAIRMAN. That concludes your remarks?

Representative LA GUARDIA. Yes.

The CHAIRMAN. I think the committee better have a short executive session next and everybody will be excused except members of the committee.

Representative LA GUARDIA. Thank you, gentlemen.

The CHAIRMAN. Thank you.

(Thereupon, at 12.05 o'clock p. m., the committee proceeded to executive session, to meet again to hear testimony at 10.30 o'clock, Thursday, April 28, 1932, or upon call of the chairman.)

# STOCK EXCHANGE PRACTICES

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THURSDAY, MAY 19, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The Committee met at 10 o'clock a. m., pursuant to adjournment on Tuesday, April 26, 1932, in room 301 Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Goldsborough, Townsend, Walcott, Carey, Watson, Couzens, Fletcher, Glass, and Barkley.

Present also: William A. Gray, Esq., counsel to the committee.

The CHAIRMAN. The committee will come to order.

Mr. GRAY. I think I should say to the chairman and members of the committee in order that they may follow this particular transaction, and then afterwards other transactions, that I am going to present the picture of a pool that was run in new Radio stock between the dates of March 12 and March 20 of 1929, those being the actual days of the operation.

I am going to show who was in that pool. I am going to show what the transactions were in the aggregate, what its profit was. And I am going finally to ascertain from some of these witnesses who have been subpoenaed, two partners of M. J. Meehan & Co., one of them a specialist in this particular stock, about some of the things that require explanation in connection with the situation, there being in one particular part of the transaction some \$92,000 paid out to people who were not participants in the pool.

I will also show who were in the pool, what moneys the pool itself made, what moneys the brokerage firm made in connection with it. I am going to inquire as to certain of these transactions, and I have here and will produce and offer in evidence a syndicate agreement, so called, or pool agreement, in connection with the transaction.

Mr. Bragg was sworn before. Mr. Chairman, I do not know whether you desire to swear him again or not.

The CHAIRMAN. No. He having already been sworn, it is unnecessary to do so again, inasmuch as this is a continuation of the same investigation.

## TESTIMONY OF THOMAS E. BRAGG, NEW YORK CITY—Resumed

Senator FLETCHER. Mr. Gray, let me inquire for information before you begin interrogating the witness: Is this just an isolated case or is it a typical case?

Mr. GRAY. It is a typical case. We have some other pools which we will also show and which involve some other, as we think, bad

practices, the same we think that this one had, and we think this will show a picture of the typical pool.

Senator FLETCHER. All right.

The CHAIRMAN. You may proceed, Mr. Gray.

Mr. GRAY. Mr. Bragg, you have already been identified in the testimony taken before the committee as a gentleman living in New York and trading in stocks on the New York Stock Exchange. And I believe you have already testified that you have no present connection with any brokerage house. Is that correct?

Mr. BRAGG. That is right.

Mr. GRAY. That you were formerly a member of W. E. Hutton & Co., a brokerage house in New York.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And some time, if I recollect it correctly, in April of 1928 until when?

Mr. BRAGG. Until November of 1930.

Mr. GRAY. Until November of 1930.

Mr. BRAGG. Yes, sir.

Mr. GRAY. So that in the spring of 1929 you were a member of the firm of W. E. Hutton & Co.?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Now, Mr. Bragg, I am directing your attention to a pool known as the new radio pool, which took place in March of 1929. You were a participant in that pool, I believe.

Mr. BRAGG. My wife was.

Mr. GRAY. Your wife was a member of that pool.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And her name for the record is Vera Bragg.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you yourself were the manager of that pool?

Mr. BRAGG. Yes, sir.

Mr. GRAY. I believe you testified, however, at the last session when you were here as a witness that you were in Florida then.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Who else managed that pool besides you?

Mr. BRAGG. Bradford Ellsworth.

Mr. GRAY. You were the nominal managers of that pool?

Mr. BRAGG. Yes, sir.

Mr. GRAY. As a matter of fact, however, you had nothing to do with the conduct of the transactions, the giving of orders to buy and sell, did you?

Mr. BRAGG. In the matter of the actual orders; no, sir.

Mr. GRAY. Where is Mr. Ellsworth to-day, do you know?

Mr. BRAGG. I do not know.

Mr. GRAY. You say you do not know where he is?

Mr. BRAGG. No, sir.

Mr. GRAY. You know that he is not now in New York City, do you?

Mr. BRAGG. I know that he was not in New York City last week.

Mr. GRAY. And he has not been in New York City this week?

Mr. BRAGG. No, sir.

Mr. GRAY. You have seen, have you not, a copy of the syndicate agreement or pool agreement in this matter?

Mr. BRAGG. Yes, sir.

Mr. GRAY. I show you a paper and ask you whether or not that is a copy of the syndicate agreement. And I will now ask the committee reporter to mark this in its order with a number. I do not know what the number is, but I now suggest that it be marked Exhibit No. 1 as beginning of this date. Now, Mr. Bragg, is that a copy of the syndicate agreement?

Mr. BRAGG. Yes, sir.

(A 3-page printed paper headed "Private and Confidential, M. J. Meehan & Co., 61 Broadway, New York, Radio Corporation of America Common Stock Syndicate (new stock), New York, March 7, 1929" is identified by being marked "Committee Exhibit No. 1, May 19, 1932," and will be returned to counsel to the committee.)

Mr. GRAY. Mr. Bragg, this pool was operated through the firm of M. J. Meehan & Co. and through the firm of W. E. Hutton & Co., is that correct?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Block, Maloney & Co. also had a participation in that pool, is that correct?

Mr. BRAGG. Well, I do not recall.

Mr. GRAY. Well, if you do not recall it I will establish it in another way.

Mr. BRAGG. I am not sure about them.

Mr. GRAY. The actual buying and selling of the most of the stock was done through M. J. Meehan & Co., isn't that correct?

Mr. BRAGG. Yes, sir; I think so.

Mr. GRAY. And do you yourself know over what period of time those sales and buys were made?

Mr. BRAGG. No; I do not absolutely know that.

Senator COUZENS. Mr. Chairman, we can not hear down here at this end of the table at all.

The CHAIRMAN. The witness will speak louder.

Mr. GRAY. Mr. Bragg, please keep your voice up so that all members of the committee may hear you.

Mr. BRAGG. All right.

Mr. GRAY. I am going to hand this paper to the reporter to be marked as an exhibit in this case as of to-day, and I want to call the committee's attention, without reading it all, to the fact that it is a circular form issued by M. J. Meehan & Co., members of the New York Stock Exchange, and it is marked at the top "Private and confidential" and the heading also bears "Radio Corporation of America Common Stock Syndicate (new stock)"; that it is dated March 7, 1929, and starts out by saying:

We have been requested to form and are forming a syndicate, of which we are to be the managers, to trade in the common stock of the Radio Corporation of America, and no other securities; and have reserved for you a participation of \_\_\_\_\_ shares.

The commitment of the syndicate shall not at any time exceed 1,000,000 shares, either long or short; and all transactions for the account of the syndicate shall be in accordance with and subject to the rules and regulations of the New York Stock Exchange.

There are then provisions with respect to the rights of the management. And then a paragraph at the end that the managers are to receive 10 per cent of the net profits of the syndicate as and for their services to be rendered herein, said payment to be made prior to distribution of the profits of said syndicate among the partici-

pants. And then at the bottom there is a place for persons to accept a participation in the syndicate.

Now, Mr. Bragg, you as one of the managers did get, along with Mr. Ellsworth, 10 per cent of the profits.

Mr. BRAGG. Yes, sir.

Mr. GRAY. But you were in Florida and did not manage it. M. J. Meehan & Co. did manage it. Now, who got the money?

Mr. BRAGG. I got my share of it.

Mr. GRAY. You got your share of it?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Although you were in Florida at the time?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Are you at all familiar with the developments of the pool?

Mr. BRAGG. With the detailed trading; no, sir.

Mr. GRAY. Are you familiar with who were in the pool?

Mr. BRAGG. Just those that were in it through W. E. Hutton & Co.

Mr. GRAY. Mr. Chairman and members of the committee, I think it might be just as well if at this point I submit to the committee the result of a fairly thorough examination, and I use the expression "fairly thorough examination" because there are important phases we would like to trace out a little further, such as what became of the syndicate moneys when checks were drawn to certain people; I say, to give to the committee at this time another exhibit, that I will hand to the committee reporter, and to which I will call the committee's attention by reading therefrom. Although this pool was organized on March 7, 1929, and was not closed until March 30, 1929, its actual operations in stock took place between March 12 and March 19, 1929, or within a period of one week. The participators in the pool were:

Nicholas F. Brady, 50,000 shares, who deposited \$1,000,000 and made a profit therefrom of \$291,710.80.

Thomas J. Regan, 50,000 shares, who deposited \$1,000,000, and who made a profit of \$291,710.80.

W. F. Kenny, 50,000 shares, who deposited \$1,000,000, and made a profit of \$291,710.80.

J. J. Raskob, who had 50,000 shares, and who put up a deposit of \$1,000,000, and made a profit of \$291,710.80.

Bradford Ellsworth, one of the managers of the pool, who had 25,000 shares, and put up \$500,000, and who made a profit of \$145,855.39.

J. E. Higgins, who had 25,000 shares, and who made a deposit of \$500,000, with a profit of \$145,855.39.

T. J. Nara, who had 15,000 shares, but who put up no deposit at all, but with a profit of \$87,513.24.

George F. Breen, who has 12,500 shares, with a deposit of \$250,000, who made a profit of \$72,927.70.

Lawrence P. Fisher, who had 12,500 shares, and who made a deposit of \$187,500, with a profit of \$72,927.70.

J. J. Riordan, who had 10,000 shares, but who put up no money, and made a profit of \$58,342.15.

Mrs. Olive Eddy, who had 10,000 shares, and who put up a deposit of \$200,000, and made a profit of \$58,342.15.

Mrs. M. J. Meehan, who had 50,000 shares, and put up a deposit of \$1,000,000, with a profit of \$291,710.80.

Mrs. M. J. Meehan again, with 15,000 shares, and who put up no deposit, with a profit of \$87,513.24.

J. H. Holmes & Co., who had 15,000 shares, and who made a deposit of \$300,000 according to the books, and with a profit of \$87,513.24.

Conway & Co., with 20,000 shares, and a deposit of \$400,000, made a profit of \$116,684.32.

E. W. Harden, with 20,000 shares, and a deposit of \$400,000, made a profit of \$116,684.32.

W. C. Durant, who had 25,000 shares, and who made a deposit of \$400,000, had a profit of \$145,855.39.

Jackson Bros. & Boesel had 20,000 shares, put up a deposit of \$400,000, and made a profit of \$116,684.32.

Walter P. Chrysler had 25,000 shares, and put up a deposit of \$500,000, and had a profit of \$145,855.39.

Joe Toplinsky had 16,500 shares, put up a deposit of \$330,000, and had a profit of \$96,264.56.

Jesup & Lamont had 5,000 shares, put up a deposit of \$100,000, and had a profit of \$29,171.08.

Charles M. Schwab had 10,000 shares, put up a deposit of \$200,000, and had a profit of \$58,342.15.

Mrs. D. Sarnoff had 10,000 shares, put up no money, and had a profit of \$58,342.15.

H. B. Swope had 10,000 shares, put up no money, and had a profit of \$58,342.15.

The total number of shares that these persons took through M. J. Meehan & Co. was 551,500. They deposited a total of \$9,667,500, with a profit of \$3,217,570.03. I pause for a moment to ask Mr. Bragg first: George F. Breen is a man who in the parlance of the street is a trader in New York City, is he not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Mrs. M. J. Meehan is the wife of M. J. Meehan who was a member of the brokerage firm of M. J. Meehan & Co. that conducted this pool, isn't that correct?

Mr. BRAGG. Yes, sir; I think so.

Mr. GRAY. And E. W. Harden is the head of the brokerage firm of that name that are members of the New York Stock Exchange, isn't that right?

Mr. BRAGG. I think so. He is a partner of—

Mr. GRAY (interposing). And W. C. Durant is a trader?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Jackson Bros. & Boesel are members of the New York Stock Exchange, is that correct?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Walter P. Chrysler is the head of the Chrysler Co., is he not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Jesup & Lamont are members of the New York Stock Exchange?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Mrs. D. Sarnoff is the wife of the head of the Radio Corporation of America, is she not?

Mr. BRAGG. I would think so; yes, sir.

Mr. GRAY. Now, the participators in W. E. Hutton & Co. in this pool were:

G. D. Smith, who had 25,000 shares and who put up a deposit of \$100,000, and made a profit of \$145,855.40.

Vera Bragg, who had 25,000 shares, and put up a deposit of \$100,000, and made a profit of \$145,855.40.

Vera Bragg and G. D. Smith, who had a joint account of 25,000 shares, and who put up a deposit of \$300,000, and made a profit of \$116,684.32.

American Brush Co., that had 25,000 shares and put up a deposit of \$375,000, made a profit of \$145,855.40.

Richard Arthur, who had 3,000 shares, and made a deposit of \$45,000, with a profit of \$17,502.65.

Dr. E. Caldwell, who had 2,500 shares, and put up a deposit of \$37,500, with a profit of \$14,585.55.

Cliffwood Corporation had 10,000 shares, put up a deposit of \$150,000, and had a profit of \$58,342.16.

The CHAIRMAN. Mr. Gray, you are reading too fast for these newspaper reporters. They would like an opportunity to get this matter.

Mr. GRAY. Very well. I will try to read a little more slowly.

The CHAIRMAN. Or will you be able to furnish them the figures?

Mr. GRAY. I will be glad to furnish the figures as soon as I get through. But I must give this paper to the committee reporter.

The CHAIRMAN. All right. Proceed.

Mr. GRAY (reading):

The next participant in W. E. Hutton & Co. is A. Wilson, who had 1,000 shares, and who put up a deposit of \$15,000, with a profit of \$5,834.22.

D. C. Millar, who had 5,000 shares, with a deposit of \$75,000, and who made a profit of \$29,171.08.

D. G. Millar again, with 2,000 shares and a deposit of \$30,000, made a profit of \$11,668.43.

Victor Klinker, with 1,250 shares and who made a deposit of \$20,000, had a profit of \$7,292.77.

H. P. Wiggin had 2,500 shares, and made a deposit of \$38,000, with a profit of \$14,585.55.

John O'Malley, who had 2,000 shares, and who put up a deposit of \$30,000, made a profit of \$11,668.43.

Berry Holding Co., who had 6,500 shares, and put up a deposit of \$100,000, with a profit of \$37,922.40.

R. A. Hames, who had 2,000 shares and put up a deposit of \$30,000, made a profit of \$11,668.43.

C. M. Weatherwax, who had 1,250 shares and put up a deposit of \$20,000, made a profit of \$7,292.77.

E. R. Alexander, who had 500 shares and put up a deposit of \$10,000, made a profit of \$2,917.10.

Sir Harry McGowan, who had 10,000 shares and put up a deposit of \$180,000, made a profit of \$58,342.16.

The totals in W. E. Hutton & Co.'s participation were 144,500 shares, with deposits of \$1,655,500, and profits of \$843,044.22. No; I see that this is carried forward to another sheet. I will continue giving W. E. Hutton & Co.'s participation before I give the grand totals:

Briggs Commercial & Development Co. had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

R. Hockstetter had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

Percy A. Rockefeller had 5,000 shares, put up a deposit of \$75,000, and made a profit of \$29,171.08.

Mrs. Ed. Weisl had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

L. P. Fisher had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

Wesson Seyburn had 5,000 shares, put up a deposit of \$75,000, and made a profit of \$29,171.09.

Charles T. Fisher had 10,000 shares, put up a deposit of \$150,000, and made a profit of \$58,342.16.

William A. Fisher had 5,000 shares, put up a deposit of \$75,000, and made a profit of \$29,171.09.

A. J. Fisher had 5,000 shares, but put up no money at all, and made a profit of \$29,171.09.

Fred J. Fisher had 10,000 shares, put up no deposit, but made a profit of \$58,342.16.

E. F. Fisher had 5,000 shares, put up no deposit, and made a profit of \$29,171.09.



J. A. Stillman had 5,000 shares, put up a deposit of \$100,000, and made a profit of \$29,171.08.

Lee Howell had 1,000 shares, put up no deposit, but made a profit of \$5,834.22.

Dr. P. M. Grausman had 1,000 shares, put up no deposit, and made a profit of \$5,834.22.

T. Clark had 1,000 shares, put up no deposit, but made a profit of \$5,834.22.

T. E. Bragg, P. A. Rockefeller, and B. E. Smith had 8,000 shares in joint account, put up no deposit, but made a profit of \$46,673.73.

Jack Solomon had 2,000 shares, put up no deposit, but had a profit of \$11,668.43.

H. Cunningham had 10,000 shares, put up no deposit, but had a profit of \$58,342.16.

Now, the total number of shares participated in through W. E. Hutton & Co. was 257,500, with total deposits of \$2,730,500, and total profits of \$1,502,310.68.

Now, Block-Maloney Co. had a small participation in their brokerage firm. But at this point I will go back and ask Mr. Bragg about some of these names. No; I will go ahead first with this list and then come back to that:

Mrs. P. J. Maloney, sr., had 7,000 shares, but put up no deposit, and still had a profit of \$40,839.51.

Mrs. P. J. Maloney, jr., had 7,000 shares, put up no deposit, and had a like profit of \$40,839.51.

T. E. Friel had 500 shares, put up a deposit of \$10,000, and made a profit of \$2,917.11.

R. P. Haws had 3,500 shares, put up a deposit of \$70,000, and made a profit of \$20,419.75.

R. T. Stone, special, had 1,500 shares, put up a deposit of \$25,000, and made a profit of \$8,751.33.

H. D. Kersey had 2,500 shares, put up a deposit of \$40,000, and made a profit of \$14,585.54.

C. A. Butler had 2,500 shares, put up a deposit of \$30,000, but made a profit of \$14,585.54.

Mrs. D. Cahalan had 500 shares, put up a deposit of \$10,000, and made a profit of \$2,917.11.

C. B. Richards & Co. had 5,000 shares, put up a deposit of \$100,000, and made a profit of \$29,171.08.

Walter Richards had 5,000 shares, but put up no deposit, and had a profit of \$29,171.08.

I have not the individual totals for Block, Maloney & Co., but the general totals for the three participating firms were 844,000 shares, participating in the syndicate, with deposits of \$12,683,000, and profits of \$4,924,078.27 in the matter of seven days' trading.

Now, M. J. Meehan—

Senator FLETCHER (interposing). Mr. Gray, maybe you are going to have Mr. Bragg explain how it is that some of them put up a deposit and some put up no deposit and yet they made a profit.

Mr. GRAY. I shall ask Mr. Bragg about that, and if he does not explain it, I have two members of the firm of M. J. Meehan & Co. that I propose to interrogate about that and other things in connection with this matter. I am going back to ask Mr. Bragg about certain people in order to get the information in the record. In connection with the participation of W. E. Hutton & Co. I find Vera Bragg and G. D. Smith. That means Gertrude D. Smith, who is the wife of Ben Smith.

Mr. BRAGG. Yes, sir.

Mr. GRAY. And Vera Bragg is your wife?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Those two had a joint account?

Mr. BRAGG. Yes, sir.

Mr. GRAY. The American Brush Co. is a concern owned and controlled as far as the records are concerned by George S. Brush, a brother of Matthew C. Brush, is it not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. In other words, it is a personal trading company.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Not an investment trust?

Mr. BRAGG. No, sir.

Mr. GRAY. The Cliffwood Corporation is a trading corporation that belongs to you?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And belongs to you solely?

Mr. BRAGG. Yes, sir.

Mr. GRAY. D. G. Millar is shown as having had 7,000 shares in this trading, and he is secretary to Matthew C. Brush, isn't he?

Mr. BRAGG. And he is vice president of the American International Corporation.

Mr. GRAY. And he is Brush's right-hand man.

Mr. BRAGG. Yes, sir.

Mr. GRAY. Who are the Berry Holding Co., do you know?

Mr. BRAGG. Yes, sir; they are oil people in California.

Mr. GRAY. And what about the Briggs Commercial & Development Co.? That is a trading concern, isn't it?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is a trading corporation the same as your Cliffwood Corporation?

Mr. BRAGG. Well, it is a much larger company and deals in real estate as well, I think.

Mr. GRAY. We know who Mr. Percy A. Rockefeller is. Now, how about Mrs. Ed. Weisl? She is the wife of the representative of a brokerage house in New York City, isn't she?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And the Fishers, L. P., Charles T., William A., A. J., and Fred J., are brothers?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And J. A. Stillman was formerly the president of the National City Bank of New York?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Now, the account of T. E. Bragg, Percy A. Rockefeller, and B. E. Smith is a joint account that started in with the purpose of dealing in Lima Locomotive and then took an interest in Radio?

Mr. BRAGG. Yes, sir.

Mr. GRAY. I will say to the members of the committee that I think there is nothing particularly significant in the name Block-Maloney Co., but—

Senator WATSON (interposing). Mr. Gray, I have to go to the Senate at 11 o'clock. I should like to ask you a question or two for my own information: Was there cooperation among these three different companies?

Mr. GRAY. I am going to try to show you that, because I am going to ask the specialist and the other member of the firm to explain certain transactions where W. E. Hutton & Co. bought certain stock

while W. E. Hutton & Co. sold certain stock. And where M. J. Meehan & Co. bought certain stock and M. J. Meehan & Co. sold certain stock. Where Meehan & Co. sold stock to Vera Bragg, a member of the syndicate, and sold to Higgins, and where Higgins sold stock back to the syndicate; and a number of these transactions that we have gone into we are going to try to connect up here.

Senator WATSON. If it does not interrupt the thread of your examination at all, let me ask you: You say a man put up so much money?

Mr. GRAY. He deposited money with M. J. Meehan & Co. after he signed this syndicate agreement.

Senator WATSON. Did they buy stock off the market at all, at the market price, or how did they buy it?

Mr. GRAY. Do you mean the members of the pool themselves?

Senator WATSON. Yes.

Mr. GRAY. Within seven days somebody connected with M. J. Meehan & Co. issued orders to buy and to sell, or somebody having unlimited discretion in the matter, and this man O'Brien was a member of the firm and the specialist on the floor, and traded in a large amount of stock, I think 1,493,400 shares, in seven days. I want to take up these figures in an orderly way and give them to you. And the amount he paid for that stock in that time was \$141,424,328.52, all in the matter of seven days.

Senator WATSON. What was the effect on the price of the stock as listed during that week?

Mr. GRAY. I am going to show you that. But I want to get it in an orderly way.

Senator WATSON. Well, I do not want to interrupt you.

Mr. GRAY. I will show you this, and this paper I will put in the record now if you wish: This syndicate was formed on March 7, 1929, and it took them from March 7 to March 12, I suppose, to get all the signatures to the agreement, and to get what money they wanted in, and then they started to operate on March 12. On the 4th day of March the high in new Radio stock was 79. On the 5th day of March it was  $77\frac{3}{4}$ . On the 6th day of March it went to 74. I am going back quite a little ways to show you that I am not just taking any particular days. On the 7th of March it was  $81\frac{3}{4}$ . On the 8th of March it was 89. On the 9th of March it was 92. On the 10th of March, well, that was Sunday. On the 11th of March it was  $90\frac{1}{8}$ . Then these people stepped into the market the next morning, and on the 12th of March it was  $91\frac{3}{4}$ , and on the 13th of March it was 94, and on the 14th of March it was  $100\frac{1}{4}$ , and on the 15th of March it was 107, and on the 16th of March it was  $109\frac{1}{4}$ . The 17th was Sunday. On the 18th of March it was 101. Now, they had practically finished their operations right there. On the 19th of March it was  $96\frac{1}{4}$ . On the 20th of March it was 94. On the 21 of March it was  $92\frac{1}{4}$ . On the 22d of March it was  $91\frac{3}{4}$ . On the 23d of March it was  $87\frac{1}{4}$ . Does that paint the picture for you?

Senator WATSON. Yes.

Mr. GRAY. Now, inasmuch as Senator Watson has asked me about these things I want to complete the picture—and let me say now that we can verify all these figures, because they have been worked on by the accountants from the books of M. J. Meehan & Co., W. E. Hutton

& Co., and Block, Maloney & Co., so that they are absolutely accurate to the penny. On the 12th day of March through M. J. Meehan & Co. they purchased 392,600 shares, while on the same day—and the significance of this is to show the backward and forward trading—they sold 246,000 shares. On the 13th through M. J. Meehan & Co. they purchased 106,900 shares and sold 152,400 shares. On the 14th they purchased 69,000 shares and sold 142,800 shares. On the 15th they purchased 209,400 shares and sold 186,000 shares.

Senator COUZENS. I thought the syndicate closed on the 12th of March.

Mr. GRAY. No. It opened on the 12th of March. But the syndicate's actual operation until distribution was made, ran from the 7th of March to the 30th of March, while the actual trading was done from March 12 to March 19, although there are some items shown thereafter, yet the actual operations on the market quit on the 19th. The 16th of March was Saturday but their tradings are carried over to Monday. Then M. J. Meehan & Co. purchased 210,500 shares while their sales are 449,100 shares.

Senator BROOKHART. How many shares are there in the Radio Corporation of America?

Mr. GRAY. I can not answer that question definitely now, but will ask Mr. Bragg.

Mr. BRAGG. It is five or six million shares.

Mr. GRAY. Outstanding in common stock?

Mr. BRAGG. Yes, sir.

Mr. GRAY. The committee probably knows that the old stock, which was selling at a price around \$8 or \$10 a share at one time, was run up on the market, and there is an old Radio pool we have not yet had a chance to go into, because really work of this kind which has been done in so many days should be done in weeks. But that stock was run up to approximately \$500 a share. Then new stock was put on the market and each stockholder of the old stock was given five shares of new stock, five for one, which cut the price practically one to five. But the new stock was put on the market and traded in before it was actually issued, and the old stock, and I believe I am accurate in this as to the date, was taken off the market on the 21st day of March. But the new stock was traded in when issued, which was the stock that was traded in by this pool.

Senator FLETCHER. What was the par value of that stock?

Mr. GRAY. What is the par, Mr. Bragg?

Mr. BRAGG. I do not know that it has a par.

Mr. GRAY. It has no par, and evidently it had no price either.

Senator BROOKHART. What is it worth now?

Mr. GRAY. Mr. Watson, the accountant, advises me that it is on the market at about 20, is that right, Mr. Bragg?

Mr. BRAGG. No, it is \$4 a share now, I believe.

Mr. GRAY. That is the new stock?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And that is the price now?

Mr. BRAGG. Yes, sir.

Senator BROOKHART. Is it still listed?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is the same stock I have described here.

Senator FLETCHER. Do you give the prices that they paid when they bought, and the prices they got when they sold the stock?

Mr. GRAY. Yes, sir. We have the working sheets here, but I have not a summary of each transaction because it would mean a mass of paper and pencil. But I have here and will hand these sheets to the committee reporter, a summary of the purchases on each day, and the exact amount of money paid for that stock in total, from M. J. Meehan & Co., W. E. Hutton & Co., and Block-Maloney Co., carrying the total purchases out and showing what they purchased during this time, being 1,493,400 shares, at a cost of \$141,424,328.52.

Now, you will notice that during those days they must have purchased approximately—well, those dealings ran over a period of 10 days, which would mean that they would be dealing in approximately 150,000 shares a day as purchases. That is, I mean on the buying end.

Now, then, at that same time they of course, because they quit even, sold 1,493,400 shares, or the same number of shares, and they received for them \$146,987,527, and taking the other figure that I have here for the stock, it left a profit of \$5,563,198.48.

(The paper referred to by Mr. Gray in answer to Senator Watson's question was identified by being marked "Committee's Exhibit No. 3, May 19, 1932," and is as follows:)

COMMITTEE'S EXHIBIT No. 3, MAY 19, 1932

We also direct your attention to the participants from the W. E. Hutton & Co. office, who failed also to make contribution in cash to the original fund.

As above stated this pool operated actively approximately one week, through which time there were purchased 1,493,400 shares at a cost of \$141,424,328.52, and the net profit accrued..... \$5,563,198.48

Distributed as follows:

Management fees, 10 per cent, per terms of agreement.....	\$547,119.80	
Other payments.....	92,000.00	
		639,119.80

Leaving a net actual distribution to the pool participants of record of..... 4,924,078.68

The analysis of payments to other than syndicate participants of record is as follows:

Eddie Dowling.....	\$19,000
Doctor Ash.....	10,000
Employee or attorney of Radio Co., I. E. Lambert.....	15,000
A. McConnachie.....	20,000
Meeham manager, F. J. Thiel.....	10,000
K. Woelfle.....	1,000
J. P. Tumulty.....	10,000
Meeham employee, A. Cotter.....	5,000
J. McNamee.....	2,000
	<u>\$92,000</u>

Mr. GRAY. We have not as yet an explanation of the purpose of these disbursements. This will undoubtedly have to be developed in the cross-examination of Mr. McConnachie. In any event, it is very desirable to find out who these people are and what their connection is. This is a typical syndicate operation.

<sup>1</sup> Paid at the direction of the pool manager, P. W. McConnachie.

It is to be borne in mind that certain of the partners of M. J. Meehan & Co. were specialists at the time of this pool. At the time of the commencement of the pool operations, namely, around March 8 to 12, 1929, the price of the when-issued new radio stock was relatively \$75 to \$80. At the time the pool closed its operations, which was about the 18th of March, 1929, the price had been run up to \$109 per share.

We are advised by Hutton & Co. that no market letters for this period are available. Inquiries to be made to M. J. Meehan & Co. to-morrow with respect to their market letters.

We direct your attention to the fact that in addition to his pool operating, there were trading accounts in radio operated by M. J. Meehan & Co. firm account, and operations of Mrs. M. J. Meehan, the ledger accounts which have not as yet been produced to us by M. J. Meehan & Co. Mrs. Meehan's account with Block-Maloney indicates—now, I am going to ask Mr. Bragg about this—

Senator GLASS (interposing). Right there let me ask you; do you call transactions of that kind investments?

Mr. GRAY. No; I would call it manipulation of the market, because here you have the picture of M. J. Meehan & Co. organizing this radio pool, and M. J. Meehan & Co. being specialists in radio and handling the stock on the floor. And I have shown you the range of prices down to the 12th of March, and I have shown you that it rose from a figure around 79 to 109 during the five days they operated, and I have shown you an immediate drop thereafter. And I will say that I am going to inquire about the expenditure of \$92,000 that appears on the books that went to nonparticipants and what for I do not know, and who some of the individuals are I do not know.

Senator GLASS. Wasn't it just as much gambling as in the case of a man who might sit at a card table with an extra card up his sleeve?

Mr. GRAY. Yes; and a little more so, because I think the fellow sitting at the card table had at least a chance to get a few of the cards, but they could not do it here.

Senator GLASS. All right.

Mr. GRAY. Mr. Bragg, the books of M. J. Meehan & Co. show the following payments made to people who were not participators in this pool, and I ask you whether or not you can tell me why these sums were paid and who some of the people were, Eddie Dowling, \$19,000.

Mr. BRAGG. He is an actor.

Mr. GRAY. Why was he paid that money, do you know?

Mr. BRAGG. No, sir.

Mr. GRAY. I say to the committee that these payments do not appear as a distribution to some of the other participants in the stock, because in some instances some of the participants would have a check drawn to themselves for a certain amount of what was due to them and a certain amount to other people, which we traced out; but others are payments made entirely apart from the participants in the pool.

Senator BROOKHART. Who would know why that was done?

Mr. GRAY. I am going to ask the other partners. But, Mr. Bragg, will you tell Senator Brookhart who would know about that?

Mr. BRAGG. Some one with M. J. Meehan & Co. should know.

Mr. GRAY. But you do not know?

Mr. BRAGG. No, sir; I do not.

Mr. GRAY. Now, next is Doctor Ash \$10,000. Who was he? Do you know?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know why they paid him \$10,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Who was I. E. Lambert? Isn't he an employee of the Radio Corporation of America?

Mr. BRAGG. I think there was an employee there, or a lawyer connected with that company by that name.

Mr. GRAY. He was either an employee or an attorney of the Radio Corporation of America?

Mr. BRAGG. I think so.

Mr. GRAY. Why was he paid \$15,000?

Mr. BRAGG. I do not know.

Mr. GRAY. It is suggested that he was general counsel for the Victor Radio Corporation. Do you know that to be so?

Mr. BRAGG. No, sir.

Mr. GRAY. Who was A. McConnachie?

Mr. BRAGG. He is a partner of M. J. Meehan & Co.

Mr. GRAY. Do you mean that A. McConnachie is a partner?

Mr. BRAGG. Well, I do not know as to the initials.

Mr. GRAY. James McConnachie is a partner, is he not?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And do you know A. McConnachie?

Mr. BRAGG. No, sir.

Mr. GRAY. Who was F. J. Thiel?

Mr. BRAGG. I think he was an employee of M. J. Meehan & Co.

Mr. GRAY. Do you know why he was paid \$10,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know K. Woelfle, who he is?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know why a person of that name, or a woman, was paid \$1,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Who is J. F. Tumulty? He was formerly the President's secretary, was he not?

Mr. BRAGG. Yes, sir.

Senator GLASS. Oh, no; not J. F. Tumulty.

Mr. GRAY. I should have said J. P. Tumulty. That is what is shown here, that he received \$10,000. Then there is another name, A. Cotter. Is he another employee of M. J. Meehan & Co.?

Mr. BRAGG. I think so.

Mr. GRAY. Do you know why he was paid \$5,000?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you know J. McNamee?

Mr. BRAGG. No, sir.

Mr. GRAY. And you do not know why he was paid \$2,000?

Mr. BRAGG. No, sir.

Mr. GRAY. You managed this pool, didn't you?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And you were responsible to the people in the pool for the proper management of it and the distribution of the money?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Then, why didn't you know something about it?

Mr. BRAGG. These figures were the net figures sent over from M. J. Meehan & Co. and they were never questioned.

Mr. GRAY. Wait a minute. The members of the committee can not hear you. Did you say that it was the net figure that was sent over to or from M. J. Meehan & Co.?

Mr. BRAGG. Sent over from them.

Mr. GRAY. Do you mean that M. J. Meehan & Co. gave to you as the manager of the syndicate a report of its operations and of the net distribution?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Well, did you see this distribution of \$92,000 on that report?

Mr. BRAGG. No, sir.

Mr. GRAY. Do you mean that they did not give it to you?

Mr. BRAGG. I do not think so. I do not remember it at all. I know that I did not see these names. I did not know anything about it. It was just the net figure I would see.

Mr. GRAY. Do you mean that you got the net figure?

Mr. BRAGG. We got the net figure of the profits on the pool in M. J. Meehan & Co. We put them together with the profits in our own office and that was the total profit, and the distribution would be prorated on that. This money I did not know about.

Mr. GRAY. Do you mean that it did not show on the net figures of M. J. Meehan & Co., that they furnished to you as the manager of the syndicate?

Mr. BRAGG. No, sir; I do not think so.

Senator FLETCHER. Do you know whether they had any special contract with any of these people?

Mr. BRAGG. No, sir; if so, I didn't know it.

Senator BROOKHART. Then, this job of manager was a kind of nominal job.

Mr. BRAGG. Somewhat.

Senator BROOKHART. And the specialist was the real manager of it?

Mr. GRAY. Is that so, Mr. Bragg?

Mr. BRAGG. Well, I did not actually give specific orders to sell so many shares of stock. I directed the general policy of it.

Mr. GRAY. Who did give those orders?

Mr. BRAGG. I had charge of the general policy of it. If we had a little too much stock there I would tell them to sell stock.

Mr. GRAY. Well, you did not have any stock at the beginning?

Mr. BRAGG. No, sir.

Mr. GRAY. This pool was organized to go out and buy stock, and to manipulate it, and to get money out of it.

Mr. BRAGG. To go out and buy stock in the open market, and to sell it at a higher price to make a profit.

Mr. GRAY. Well, buying and selling on the same day is a wash-sale business, isn't it?

Mr. BRAGG. No, sir.

Mr. GRAY. It is not a wash sale when you get one fellow to do one thing and another fellow to do another thing, but when one fellow does both it is a wash sale?



Mr. BRAGG. Yes, sir.

Mr. GRAY. And if the same manager directs the two fellows in the buying and selling, then it is not a wash sale?

Mr. BRAGG. No, sir.

Senator GLASS. Well, that is like agreeing not to raise an objection on the Senate floor, and then going and getting somebody else to raise the objection.

Senator BROOKHART. Just about the same.

Senator COUZENS. Will you describe what the manager's duties are in a case like this? I am not quite certain as to what a manager does. I understand that you were the manager of this syndicate, and I should like to understand your duties.

Mr. BRAGG. Well, the manager of a syndicate would organize it, and get subscriptions to the syndicate, and decide on the stock they are going to buy, and about how much, and decide when to sell it, either for a profit or a loss; and see that it was properly capitalized, that they had enough money to run it.

Senator COUZENS. And you could do that just as well from Florida as from New York or any other place?

Mr. BRAGG. Well, I do not know about that, not quite as well; no I think it could be done better in New York than in Florida.

Senator BROOKHART. In fact, you turned the management of this syndicate over to M. J. Meehan & Co., your specialists, and paid no attention to it.

Mr. BRAGG. I would talk with them at night. I knew the position then and I would tell them if they had too much stock. I would talk with Smith and tell him: You have got too much stock, and you ought to sell it.

Senator GOLDSBOROUGH. As a matter of fact, you did not manage it at all, did you?

Mr. BRAGG. Yes; I was the manager of the syndicate.

Senator GOLDSBOROUGH. And yet you were in Florida?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is not the question, but the question—

Senator TOWNSEND (interposing). You were manager in name only?

Mr. BRAGG. I did not do the actual buying and selling.

Senator GOLDSBOROUGH. Then you did not know when stock was purchased or sold if you were in Florida?

Mr. BRAGG. Not during the day, no, sir.

Senator BROOKHART. Is that kind of operation in accordance with the rules and regulations of the New York Stock Exchange?

Mr. BRAGG. Yes, sir; I think so.

Senator BROOKHART. They permit this cross-buying and selling through the same trader?

Mr. BRAGG. They do not permit wash sales. And I do not think there were any wash sales in this syndicate. This was trading, which they had a perfect right to do.

Senator FLETCHER. What was your compensation as manager of the syndicate? M. J. Meehan & Co. got 10 per cent, as I understand the situation, and now what did you get as manager of the syndicate?

Mr. BRAGG. I think they got 5 per cent.

Senator FLETCHER. And 5 per cent of that 10 per cent was your part?

Mr. BRAGG. I think it was all 5. Let me look at the agreement.

Mr. GRAY. The agreement shows, I think, 10 per cent.

Senator GOLDSBOROUGH. Yes, it is 10 per cent.

Mr. BRAGG. I think it is 5 per cent.

Mr. GRAY. The agreement is that:

The managers are to receive 10 per cent of the net profits of the syndicate as and for their services to be rendered herein, said payment to be made prior to the distribution of the profits of said syndicate among the participants.

There is also the provision in the first part of the agreement:

We have been requested to form and are forming a syndicate, of which we are to be the managers, to trade in the common stock of the Radio Corporation of America, and no other securities.

Then it goes on to say:

The commitment of the syndicate shall not at any time exceed one million (1,000,000) shares, either long or short.

Then it says further:

Subject only to the limitations aforesaid, the managers, in a trading account on the books of Messrs. M. J. Meehan & Co., who are hereby appointed agents for the managers, entitled "Radio Corporation of America Common Stock Syndicate," shall have full power and authority, hereby granted.

But in this agreement there is nothing to indicate as to who are to be the managers. I beg pardon. I see it is signed "Bradford Ellsworth and Thomas E. Bragg, syndicate managers." And then it says that the managers are to receive 10 per cent. Did it mean that M. J. Meehan & Co. were to receive 10 per cent?

Mr. BRAGG. I assume it did.

Mr. GRAY. And they paid 5 per cent of it to you and 5 per cent to Bradford Ellsworth.

Mr. BRAGG. No. Ellsworth and I got 5 per cent together.

Mr. GRAY. Yes; and M. J. Meehan & Co. got the other 5 per cent. Now, in addition to that M. J. Meehan & Co. for conducting their part of the pool got their usual commission?

Mr. BRAGG. Yes, sir.

Mr. GRAY. That is correct, isn't it?

Mr. BRAGG. Yes, sir. Let me see that agreement again. I thought it was 5 per cent.

Senator BROOKHART. You were probably confused by the fact that you got 5 per cent and the broker got the other 5 per cent.

Mr. GRAY. And the management fee was \$547,119.80. You won't dispute that figure, will you?

Mr. BRAGG. No, sir.

Senator CAREY. Do the rules of the New York Stock Exchange permit a broker to take a commission as well as their fee?

Mr. BRAGG. Yes, sir.

Senator CAREY. Then they make a commission besides the regular brokerage fee?

Mr. BRAGG. They have minimum brokerage fees. I think that is the only limitation. They can charge more if they want to.

Senator CAREY. They can charge a commission above that?

Mr. BRAGG. Yes, sir.

Mr. GRAY. And the commissions in this case to M. J. Meehan & Co. were \$583,000 besides, weren't they?

Mr. BRAGG. I would think so, but I do not know.

Mr. GRAY. And that does not include the interest charges that M. J. Meehan & Co. may make for advancing whatever amounts of money are necessary over and above the contributions of the participants. That is correct, isn't it?

Mr. BRAGG. That is correct. M. J. Meehan & Co. would have to borrow money and also to pay for it.

Mr. GRAY. I understand, and there would be certain interest charges and M. J. Meehan & Co. would assume the net interest position, but what they would charge the syndicate would be something above that?

Mr. BRAGG. Yes, sir.

Senator WALCOTT. Do you know what people in the syndicate were carried, and in what amounts, Mr. Gray?

Mr. GRAY. The record I read showed the amount of money each individual put up, and those individuals who put up no money at all.

Senator WALCOTT. But where they were responsible for the cash: they would be called upon to put up a certain amount in cash and then the brokerage firm would carry the balance. You do not know what the borrowing amounts were, do you?

Mr. GRAY. No. But we know the amounts that I have given in the statement handed to the committee reporter, that they were the amounts actually put up by those people. The books show that that money was actually put up.

Senator WALCOTT. And if there was any borrowing it was under some other arrangement?

Mr. GRAY. Yes. M. J. Meehan & Co. did the same as any other brokerage house, I assume.

Senator COUZENS. When you read off that no money was put up, did that mean that they put up no money or that they borrowed the amounts from the broker?

Mr. GRAY. In the checking of the accounts we have not been able to get any separate interest charges, carrying charges, that M. J. Meehan & Co. may have provided as against those accounts. We ascertained in those instances in making the distribution where there was a calculation of interest charges as against those people, that it would be greater on account of their noncontribution than against those where there was a contribution. I mean we would suppose it is so but do not know as yet.

Senator COUZENS. You do not wish us to understand that in the case of those names that you read off as putting up nothing, that they did not obligate themselves to put up something?

Mr. GRAY. No. They obligated themselves and were participants, having signed the syndicate agreement in which they obligated themselves to take a certain participation, and in event, through mismanagement or otherwise, this pool had operated at a loss, they would be liable for their share of the loss. They were not gratuitous participants.

Senator COUZENS. Some of the members of the committee got the impression that they were gratuitous participants.

Mr. GRAY. No. Then there was an additional loss of \$92,000 for presents made for some reason or other. Those people did not appear in the participation at all, and there is no reason shown on the books why they should have been paid a dollar in money.

Now, as to J. E. Higgins, who was a member of this pool. Who is he?

Mr. BRAGG. He is a trader.

Mr. GRAY. He is a trader the same as yourself?

Mr. BRAGG. Yes, sir.

Mr. GRAY. Let me ask you this: A number of people who were in this pool and following the pool itself, traded on their own account, did they not?

Mr. BRAGG. Very likely.

Mr. GRAY. Keeping in touch, of course, with what the pool was doing?

Mr. BRAGG. Yes.

Mr. GRAY. The pool in certain instances made trades with members of the syndicate. Do you know why that would be done?

Mr. BRAGG. No; unless a member of the syndicate might buy or sell stock in the open market, might buy and sell it from the syndicate.

Mr. GRAY. These transactions appear on M. J. Meehan's & Co.'s books, and I want to ask you if you can explain them: On March 15, 1929, the Radio Syndicate sold 25,000 shares of Radio at 101, and on March 15, 1929, J. E. Higgins, a member of the syndicate, bought 25,000 shares at 101. Can you explain that transaction? Was it a matter of just putting a trade out on the market for the purpose of continuing the activity in the stock?

Mr. BRAGG. I could not answer that. Higgins is a very big trader, or was at that time.

Mr. GRAY. Do you know where he is now?

Mr. BRAGG. No, sir; I do not.

Mr. GRAY. We have not been able to find him, I will say to the committee. And we have not been able to find Mr. Ellsworth, although I did have someone talk to him in Canada and try to get him down here, but was unable to do so.

Now, Mr. Bragg, on March 18, 1929, according to M. J. Meehan & Co.'s books, radio stock was sold to the extent of 10,000 shares at 107½, and J. E. Higgins bought 10,000 shares at 107½. Can you explain that transaction?

Mr. BRAGG. No. Was J. E. Higgins a member of that syndicate, or was it Mrs. Higgins?

Mr. GRAY. No; it was J. E. Higgins, I am sure of that, but you are entitled to your view of it.

Mr. GRAY. J. E. Higgins was a member of the syndicate with a participation of 25,000 shares, and put up a half a million dollars.

The CHAIRMAN. You know those figures are accurate, do you?

Mr. GRAY. They are absolutely accurate, Senator.

The CHAIRMAN. You can not explain that transaction?

Mr. BRAGG. No, sir.

Mr. GRAY. On March 19 where Radio Syndicate bought 5,000 shares at 105 and J. E. Higgins sold 5,000 shares at 105. Now maybe you can explain some of these others. The books of Meehan show this: That on March 12, 1929, Meehan & Co. sold 1,000 shares of Radio at 92⅞ from the syndicate account to Hutton & Co., who bought the same for the account of Mrs. Vera Bragg, your wife. Was that transaction a transaction just to keep alive the activity of the stock?

Mr. BRAGG. No.

Mr. GRAY. Well, was your wife buying stock from the syndicate?

Mr. BRAGG. I don't remember that particular transaction. It might have been so that the stock would not meet there. So that there would not be a wash sale.

Mr. GRAY. In other words, so that you could pull through a wash sale but that it would not have the appearance of it?

Mr. BRAGG. No; that in this heavy trading so that there would not be any wash sale. That might be.

Mr. GRAY. Now who handled your wife's account and gave orders as to the buying and selling while you were in Florida?

Mr. BRAGG. Well, that trade might have been put through by a clerk in the office.

Mr. GRAY. Well, who gave that clerk in the office instructions?

Mr. BRAGG. I don't know who gave those instructions.

Mr. GRAY. Well, who would? Who had the authority to?

Mr. BRAGG. A thousand shares—any clerk in the office there could have done that.

Mr. GRAY. A thousand shares is just so small that any clerk in the office of W. E. Hutton & Co. could have given orders to buy it for your wife?

Mr. BRAGG. For her account; yes.

Mr. GRAY. For her account. Now your wife was in the syndicate, and the syndicate was buying and selling at a profit. Why would she buy it from the syndicate?

Mr. BRAGG. I don't know just the explanations for that particular thing. It could have been, as I say, so that in this heavy trading here, all the trades made, so it would not be a wash sale and put it in that account.

Mr. GRAY. I am afraid you will have to be a little more clarifying in your explanations. You say in order that there would not be any wash sale, so that it would be put in that account. That doesn't mean anything. M. J. Meehan & Co., the syndicate managers, the actual managers, sold stock to your wife out of the syndicate stock, bought by Hutton & Co., the brokers who were also handling the stock for your wife in that account. Now what was that transaction? Your wife never gave any orders at all, did she?

Mr. BRAGG. No.

Mr. GRAY. She doesn't know what it is all about, does she, except as she has learned it from you over the dinner table?

Mr. BRAGG. No; I didn't talk about it.

Mr. GRAY. What?

Mr. BRAGG. No; I didn't talk about it.

Mr. GRAY. No; I guess you didn't. Then, she knows less about it. Now, then, who in Hutton & Co. or Meehan—let us take the Hutton end of it; let us take the buying end of it. Who would give orders to buy a thousand shares of stock for Mrs. Bragg?

Mr. BRAGG. They might have a thousand shares in the air and say, "Can you put this some place?" And the clerk says, "Yes."

Mr. GRAY. What do you mean by "a thousand shares in the air"?

Mr. BRAGG. A thousand shares that they bought that somebody don't own, or a thousand shares sold—I don't know which that was, and they would say, "Have you got some place to put it?" The clerk says "Yes." And put it in my wife's name.

Mr. GRAY. Yes. In other words, they didn't know what to do with the thousand shares out of the large quantity they bought that day so they put it in Mrs. Bragg's account?

Mr. BRAGG. That could be one reason.

Mr. GRAY. Would she have to account to the syndicate for it in the final analysis of the thing?

Mr. BRAGG. No.

Mr. GRAY. Would it be hers?

Mr. BRAGG. Yes.

Mr. GRAY. Would she pay for it?

Mr. BRAGG. Yes.

Mr. GRAY. Who would have the right to say that they would saddle Mrs. Bragg with 1,000 shares of that stock at that price without you or her finding out if she wanted it?

Mr. BRAGG. Well, any of the clerks in the office could have done that. My office.

Mr. GRAY. Who gives them that authority? You?

Mr. BRAGG. Yes; they had that authority, the clerks in my office.

Mr. GRAY. In other words, there wasn't much chance of losing in Radio stock while the pool was operating, so you let them do what they wanted?

Mr. BRAGG. Well, there is a chance of losing money at any time when you trade in anything. There is a chance of losing money.

Mr. GRAY. Well, I think the committee probably understands that situation.

Senator FLETCHER. Did you ever personally acquaint yourself with the assets and liabilities of this corporation? What property they had? What their responsibility really, was? What their business was?

Mr. BRAGG. I was quite familiar with the company. They didn't have much assets or liabilities. They had mostly an idea.

Senator FLETCHER. Just an idea. No assets and liabilities.

The CHAIRMAN. But lots of capital stock.

Senator COUZENS. Well, as a matter of fact, Mr. Bragg, weren't these shares put in your wife's name for the purpose of avoiding any wash sale?

Mr. BRAGG. It might be that; yes.

Mr. GRAY. In other words, they do not represent a real transaction?

Mr. BRAGG. Oh, yes; a real transaction. Goes into the account and is paid for like any other transaction.

Senator COUZENS. But it was an avoidance of showing up a wash sale. The witness admits that.

Mr. GRAY. I think so. Now, by the way, you had in the Huttons what they call a Z. Q. blotter. Can you tell the committee what that was?

Mr. BRAGG. All my accounts were practically all discretionary accounts, and I could buy 5,000 shares of stock, and different accounts, if they wanted part of it they could have it, and I would put it in there.

Mr. GRAY. Keep your voice up.

Mr. BRAGG. I would put in one a thousand, one 500, another a couple of thousand.

Mr. GRAY. You do not answer me about what the Z. Q. blotter is.

Mr. BRAGG. Well, as I said in the beginning, if I picked up 5,000 shares or 10,000 shares of stock during the day I just held it Z. Q., and then these discretionary accounts would either take the stock during the day—it would not all be bought at once; accumulated during the day, and then 500 in one account, a thousand in another, and a couple of thousand in another.

Mr. GRAY. Let me state it another way. In other words, the Z. Q. blotter was an account into which all of your transactions, such as the ones you have indicated, these discretionary transactions were first put?

Mr. BRAGG. Yes.

Mr. GRAY. And if you gave an order to buy 25,000 shares of stock during the day, a certain stock, or even different stocks, and you had not definitely allocated that, it would come in that blotter?

Mr. BRAGG. Yes.

Mr. GRAY. At the end of the day under the instructions of either yourself or one of these discretionary clerks who knew all about your affairs, it would be allocated to different accounts that you were interested in?

Mr. BRAGG. Yes.

Mr. GRAY. Is that correct?

Mr. BRAGG. Yes.

Senator COUZENS. And those different accounts did not involve different people, but only your own self, is that it?

Mr. BRAGG. No; different people.

Senator COUZENS. I do not think you got it quite across. He did not allot these to his own account, but he distributed them among persons whom he had discretion to distribute them among.

Mr. GRAY. Yes. In other words, some of them may have gone in your own account, some in your wife's, some in Gertrude Smith's, some in Ben Smith's, some in the Cliffwood Corporation, some in Lima Locomotive, as it might happen, or any other particular accounts in which you and others associated with you were interested, but all in accounts in which you had some interest, isn't that correct?

Mr. BRAGG. Oh, no.

Mr. GRAY. Now, let us get it clear so as to be sure about it. You mean some of it may have been allocated to some of your friends or others in which accounts you would have absolutely no interest, at the end of the day?

Mr. BRAGG. Yes; that is right.

Senator COUZENS. Those are the discretionary accounts he is talking about.

Mr. GRAY. Those were not tradings on your part as a broker? They were all tradings on your part as a trader? They went into this Z. Q. blotter and were eventually allocated by you either to some of your own accounts, or some of these other accounts, or to some other account?

Mr. BRAGG. Yes.

Mr. GRAY. I mean you did not act as a commission broker in making the trade? Hutton & Co. did?

Mr. BRAGG. Yes; myself as a partner there.

Mr. GRAY. Yourself as a partner there?

Mr. BRAGG. I didn't ask them to buy the stock.

Mr. GRAY. Well, your position was really a buyer or seller—the buyer in this case, was it not?

Mr. BRAGG. The buyer or seller.

Mr. GRAY. Each side of the market would have gone into this blotter?

Mr. BRAGG. Yes.

Mr. GRAY. On March the 12th, according to Meehan's books—and this is all 1929—Meehan & Co. sold 1,300 shares of Radio at 91¾ to Hutton & Co., 1,000 of which were purchased for the account of the American Brush Co., another syndicate member. Was that transaction the same kind of a transaction as that sale to your wife?

Mr. BRAGG. No, sir; I don't think so.

Mr. GRAY. What would you think it was?

Mr. BRAGG. Just a purchase.

Mr. GRAY. In other words you think that the American Brush Co., a member of the syndicate, would be buying from the syndicate a thousand shares of stock?

Mr. BRAGG. Yes.

Mr. GRAY. Why.

Mr. BRAGG. Well, they bought a thousand shares of stock and they could very easily buy it from the syndicate if the syndicate was the seller.

Mr. GRAY. You mean for the purpose of trading in it individually in addition to the syndicate's trading?

Mr. BRAGG. Yes, sir.

Mr. GRAY. On March the 14th Meehan & Co. sold 5,000 shares at 93½ to Hutton & Co. Two thousand were purchased for your wife's account. Two thousand five hundred for the account of Gertrude D. Smith. Both participants. Were they the same as the other transaction where Meehan & Co. sold to Hutton & Co. on account of your wife?

Mr. BRAGG. I would think so.

Mr. GRAY. On March the 15th Meehan & Co. sold 5,000 shares of Radio at 100¾ of the syndicate account to Hutton & Co., who purchased the same for an account known as 125, Bradford Ellsworth, one of the managers of the syndicate. Was that also used as a cover-up transaction?

Mr. BRAGG. I don't know. He could have bought it himself.

Mr. GRAY. Well, he could have, but do you know anything about that transaction? Whether he did or not?

Mr. BRAGG. No; I do not.

Mr. GRAY. Have you anything to say about the manager of the syndicate selling stock to himself?

Mr. BRAGG. Well, as a participant of the syndicate he could buy it or sell it.

Mr. GRAY. So the managers have the right to control the situation to their own advantage if they so desire? In other words, nobody questions the ethics of that?

Mr. BRAGG. Well, I don't think anybody would question it. If the manager wanted to buy stock he could buy it from the syndicate, or the syndicate as a seller. I don't think there is anything particularly unethical about that.



Mr. GRAY. All right. On March 15 Meehan & Co. sold 800 shares to Hutton & Co. who purchased it from the syndicate account. What can you say about that? In other words, Meehan & Co. sold syndicate stock to Hutton. Meehan sold it as syndicate stock; Hutton bought it as syndicate stock.

Mr. BRAGG. That is an error.

Mr. GRAY. You mean they made a mistake?

Mr. BRAGG. Yes.

Mr. GRAY. It should not have been done that way?

Mr. BRAGG. No, sir.

Mr. GRAY. Well, that is a pure wash sale, isn't it?

Mr. BRAGG. Well, I am not sure just exactly, but that is an error, and that could easily happen in this tremendous volume.

Mr. GRAY. You mean that Meehan & Co. selling a tremendous volume and Hutton & Co. both buying and selling a tremendous volume, that it might have been that Hutton, through the floor broker, bought the stock that Meehan was offering for sale?

Mr. BRAGG. Yes.

Mr. GRAY. Well then, Hutton & Co. and Meehan & Co. were not cooperating very closely, were they?

Mr. BRAGG. Well yes, because in that trade with that big volume there could be a hundred brokers there in the small space at the post and they could be trading back and forth with each other and not know each other.

Mr. GRAY. So that there might be many transactions, where in keeping up an active market, Hutton & Co. might be buying and Meehan selling, or Meehan buying and Hutton selling?

Mr. BRAGG. Yes, but not at the same price.

Mr. GRAY. Well, this happens to be a transaction that passed right through?

Mr. BRAGG. Yes, that is an error.

Senator BROOKHART. If they were required to give the certificate numbers of the stock that situation you have just described could not happen, could it?

Mr. BRAGG. Well, this is all trading on the floor, you see, by maybe fifty or a hundred brokers.

Senator BROOKHART. Yes, but if they would have to identify the stock certificates by numbers they would not get in that sort of a mess?

Mr. BRAGG. It would be pretty hard to do business on the floor of the stock exchange. It would stop all the trading. A lot of the trading.

Senator COUZENS. Who was the specialist in this case, Mr. Gray, do you know?

Mr. GRAY. The specialist was Meehan & Co.

Senator COUZENS. But who was the individual?

Mr. GRAY. O'Brien, one of the partners. I have him here.

Senator COUZENS. Who was on the floor as a specialist?

Mr. GRAY. I am going to try to find that out, Senator. I thought this made a pretty picture of the pool where the public didn't have much to say about it.

Senator FLETCHER. The error consisted in the fact that nobody made any profit, is that the idea?

Mr. BRAGG. No; that the trades met. That was the error.

Senator FLETCHER. In other words, just one wiped off the other? There was no profit made by one or the other?

Mr. BRAGG. There was a loss. The commissions they had to pay.

Mr. GRAY. The commissions that they had to pay both houses. They were the only people that made a profit out of it.

Senator FLETCHER. The syndicate paid that?

Mr. BRAGG. Yes.

Mr. GRAY. Another thing is the item of 200 shares on the same date, sold by Meehan and bought by Hutton, both acting for the syndicate account. Your answer would be the same, I suppose?

Mr. BRAGG. Yes.

Mr. GRAY. Now, on March 18 Meehan & Co. sold 5,000 shares at 107½ to Hutton & Co., who purchased for their account No. 6000, the American International Corporation account. Have you any particular knowledge of that sale?

Mr. BRAGG. No.

Mr. GRAY. The American International was not a member of the syndicate or pool?

Mr. BRAGG. No, sir.

Mr. GRAY. Now then, on March 15 your wife and Gertrude Smith appear again. Hutton & Co. sold to Meehan & Co. 10,000 shares at 95½ for the account of Hutton's customers, Vera Bragg and Gertrude Smith. Now, is that the stock that Vera Bragg and Gertrude Smith bought from Meehan back on the 14th?

Mr. BRAGG. I don't think so. I don't know whether it was.

Mr. GRAY. Yes. So that when Meehan & Co. sold to Hutton & Co. for Vera Bragg and Gertrude Smith certain stock around the 14th of March, 1929—

Senator FLETCHER. At what price?

Mr. GRAY. I will give you the price. On March the 14th, 1929, M. J. Meehan & Co. sold 5,000 shares at 93½ to Hutton & Co., 2,000 of which were purchased for the account of Vera Bragg and 2,500 for the account of Gertrude D. Smith, both syndicate participants. On March 12, Meehan & Co. sold 1,000 shares at 92⅞ from the Radio Syndicate account to Hutton & Co., who bought for the account of Vera Bragg, a syndicate participant. Now, that is 1,000 at 92⅞ and 4,500 at 93½. Now, those are the only items that we traced on that side.

But we have an item here on March the 15th, 1929, where Hutton & Co. sold back to Meehan & Co. 10,000 shares at 95½, of which Vera Bragg had 2,000 and of which Gertrude Smith had 5,000. So we have members of the syndicate either dealing with the syndicate, or we have, as has been indicated by Mr. Bragg, transactions that were done so that they would not appear as wash sales.

Mr. Bragg, during the week that this pool was running, there was a great deal of publicity and a boosting of radio. Did you as the manager of the syndicate have anything to do with that?

Mr. BRAGG. No.

Mr. GRAY. Do you know anything about it at all?

Mr. BRAGG. No.

Mr. GRAY. After asking some of the other witnesses about this, I will present this abstract as to these publications for the record later. I do not see any use of examining Mr. Bragg about them.

Mr. Bragg, I am going away from Radio and want to ask you a general question about the market. What are stop orders? Not stop loss orders, but stop orders.

Mr. BRAGG. Well, when a number of orders accumulate on a book at a certain price, say the stock at 20 or 21, and a trader can stop some of that stock—what they call stopping the stock. That is, if it sells at 21 he can sell 1,000. It may be selling above 21. He wants to sell it.

Mr. GRAY. Now I want you to put that in quite plain language, won't you? Assume that we do not know anything about the stock market. Will you start to tell us about stock being at 20 or 21, and if he wants to sell it he can sell 1,000 shares at 21? Explain what the order is and how it operates.

Mr. BRAGG. Say a stock is selling at \$21 in the market.

Mr. GRAY. That is the present-minute market price?

Mr. BRAGG. Yes.

Mr. GRAY. All right.

Mr. BRAGG. And say at \$20 a share there are 10,000 shares wanted there on the book.

Mr. GRAY. That appears on the specialist's book, you mean?

Mr. BRAGG. Yes, sir.

Mr. GRAY. In other words, the specialist has on his book an order to buy 10,000 shares at \$20 a share, which is a point below the market?

Mr. BRAGG. Yes.

Mr. GRAY. All right, go ahead.

Mr. BRAGG. Well, a trader can come along and stop 1,000 of that so that when it gets to 20, why he will sell 1,000 of the 10,000.

Mr. GRAY. Now he is not the man who wants to buy?

Mr. BRAGG. No, sir.

Mr. GRAY. But you mean he puts in an order with the specialist?

Mr. BRAGG. Yes.

Mr. GRAY. To sell 1,000 shares of that stock?

Mr. BRAGG. At 20.

Mr. GRAY. At 20?

Mr. BRAGG. When it is selling at 21.

Mr. GRAY. Yes: it is selling at 21.

Mr. BRAGG. Yes.

Mr. GRAY. But he puts in an order to sell 1,000 at 20?

Mr. BRAGG. Yes.

Mr. GRAY. Then he can if he has got a market for it sell it at 21 right there?

Mr. BRAGG. Yes.

Mr. GRAY. Now what is his purpose? What does he accomplish?

Mr. BRAGG. Well, if the stock looked like a down stock and there isn't much wanted here at 21 or down to 20 he can only sell two or three hundred shares down to 20, there wouldn't be much of a trade there. But it got to 20, and this stock went through this price here of 20—on 10,000 shares if it was a down stock it might go down two or three dollars.

Senator BROOKHART. How does he know that it was a down stock?

Mr. BRAGG. Just by the feel of the stock or watching it, that is all. As a trader. Now the same thing would work on the other side.

Mr. GRAY. I know, but what is his purpose then? That is a short sale, of course, at 20 that he already puts in?

Mr. BRAGG. Yes.

Mr. GRAY. Now what does he anticipate is going to happen?

Mr. BRAGG. Well, if this 10,000 is filled during the day or during the next day why the stock would probably go down. If it happened to be a down stock.

Mr. GRAY. In other words, he knows how much stock there is on the specialist's book, how much there is in the way of orders to buy at a price below the market? He puts an order in to sell at that certain price so that when it reaches it, he anticipates on account of the thinness of the market as the usual thing that that stock is going to go down below that price and he is going to be given an opportunity within a reasonable time to cover?

Mr. BRAGG. That is what he feels and hopes.

Mr. GRAY. Yes. Now, the only people that can do that are the specialists or the people who act as floor traders, who are in touch with the specialists and who have the knowledge of what is on the specialist's book, isn't that so?

Mr. BRAGG. No; any trader can give that order.

Mr. GRAY. If he gets the information from the specialist's book? Without that information he can not do that, can he?

Mr. BRAGG. Yes; he could do it. If the stock was selling at, say \$100, and that is a round price for it, he might feel that if it broke 100 it might go to 90.

Mr. GRAY. Yes.

Senator COUZENS. In other words, he would use his judgment about using the knowledge he has of what is on the specialist's book?

Mr. BRAGG. Yes; he might do it.

Mr. GRAY. Well, that is a frequent practice on the floor of the exchange, isn't it?

Mr. BRAGG. Well, I couldn't say that. I never was on the floor of the exchange.

The CHAIRMAN. Isn't that inside information as against the public?

Mr. BRAGG. Pardon me, sir?

The CHAIRMAN. Wouldn't that be inside knowledge or inside information that could be used against the public who were buying?

Mr. BRAGG. Well, it would be knowledge that a trader would be more familiar with than the general public. I would think; yes. I don't know as it would be inside information.

Mr. GRAY. But it is if he has the knowledge that appears on the specialist's book?

Mr. BRAGG. If he knows what is on the specialist's book.

Mr. GRAY. Well, it is a fact that he does know it in all of these trades, and without that knowledge he would not act, would he? In other words, tell me whether it is not a fact that that is one of the usual practices, to get that information and sell in that way?

Mr. BRAGG. Oh, I would not say it was the usual practice. I suppose it is done.

Mr. GRAY. Frequently?

Mr. BRAGG. Well, I couldn't say how frequently.

Senator COUZENS. The witness says he does not operate on the floor himself.

Mr. GRAY. I know that. The witness does not operate on the floor himself. Now, then, how do you know about it?

Mr. BRAGG. Well, I know that you can—I could give an order to stop a thousand shares at a price.

Mr. GRAY. Well, you know that it is done?

Mr. BRAGG. Yes.

Mr. GRAY. You have done it?

Mr. BRAGG. I have done it; yes.

Senator GLASS. Well, did you have knowledge of what was on the specialist's book when you did it?

Mr. BRAGG. No.

Senator COUZENS. I do not think it is conclusive that a man who is not on the floor has to have the information that is on the specialist's book before he can operate.

Mr. GRAY. No; it is true that it is not conclusive, but I will ask Mr. Bragg one question. You said, Mr. Bragg, that one could do it without the knowledge of the specialist's book, and you illustrated your answer by saying that, if the stock was 100 and a man thought it was going to 90, he might put an order in to sell it at 98, didn't you?

Mr. BRAGG. No; he would sell it at 100, or if it breaks 100.

Mr. GRAY. Yes. Well, that is not a stop order?

Mr. BRAGG. Yes; a stop at 100. Sell it at 100.

Mr. GRAY. Oh, you mean if it does not reach 100?

Mr. BRAGG. Yes.

Mr. GRAY. Yes. In other words, he is putting in an order to sell it below the market?

Mr. BRAGG. Yes; when it reaches there.

Mr. GRAY. You said that could be done.

Mr. BRAGG. When it reaches there.

Mr. GRAY. When it reaches there?

Mr. BRAGG. Yes.

Mr. GRAY. But, do you mean to say that it is done without some knowledge of the conditions as they appear on the specialist's book?

Mr. BRAGG. Will you please ask me that question again?

Mr. GRAY. You said that a man might put in an order to sell at 100, to use your figure, when the stock reached there.

Mr. BRAGG. Yes.

Mr. GRAY. When the stock was then being quoted on the market or being sold on the market at slightly above 100?

Mr. BRAGG. Yes.

Mr. GRAY. And you said that would be a stop order?

Mr. BRAGG. Yes.

Mr. GRAY. I am asking you whether or not a man would put in such an order—you said he could, and of course he could—but whether a good trader would put in such an order without a knowledge of the specialist's book?

Mr. BRAGG. Yes; I should think so.

Mr. GRAY. He would. Why wouldn't he put it in to sell it at just the then market instead of putting it in at a figure below?

Mr. BRAGG. Well, he might feel or think that if it broke 100 that it would go say 10 points lower. And it is the same as on the reverse side, the opposite side of the market.

Mr. GRAY. Yes; of course what can be done on one side can be done on the other. That is all I want to ask Mr. Bragg.

Senator COUZENS. Let your next witness come forward.

Mr. GRAY. I want to put Mr. McConnachie on. I want to clear up this one transaction. You had better remain, Mr. Bragg.

Senator COUZENS. Are you now going to continue on this same matter, or are you going on to some other thing?

Mr. GRAY. No; I am going to continue on the Radio matter.

Senator COUZENS. I was hoping you would conclude the whole Radio transaction before you would go on with the others.

Mr. GRAY. That is what I am doing.

**TESTIMONY OF JAMES F. McCONNACHIE, MEMBER OF THE FIRM  
OF M. J. MEEHAN & CO., NEW YORK CITY**

(The witness was duly sworn by the chairman of the committee.)

Mr. GRAY. Mr. McConnachie, you are a member of the firm of M. J. Meehan & Co.?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. You have been so for how long?

Mr. McCONNACHIE. For almost two years.

Mr. GRAY. For almost two years. And you were not in the firm of M. J. Meehan & Co. at the time that this pool took place?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Do you know anything about its transactions?

Mr. McCONNACHIE. No, sir.

Senator COUZENS. What were you engaged in before you were with M. J. Meehan & Co.?

Mr. McCONNACHIE. Supervising agent of the United States Treasury Department.

Mr. GRAY. How long were you there?

Mr. McCONNACHIE. Twenty-three years.

Mr. GRAY. How did you come to go with M. J. Meehan & Co.?

Mr. McCONNACHIE. We had been friends for a great many years. He had urged me for many years to become his partner, but I was very contented in my position. I felt that I was happier there than I would be in finance, and I wasn't particularly interested in making a lot of money, having a private income which satisfied me, so for that reason I did not respond until about two years ago.

Senator COUZENS. When you were with the United States Treasury, what salary did you get?

Mr. McCONNACHIE. \$6,000.

Senator COUZENS. And you say you were there 23 years?

Mr. McCONNACHIE. Yes.

Senator COUZENS. What capacity did you start in?

Mr. McCONNACHIE. As special agent.

Senator COUZENS. Where?

Mr. McCONNACHIE. At the port of New York, appointed by Secretary of the Treasury Cortelyou in the Roosevelt administration.

Mr. GRAY. During the time that the accountants have been working in the offices of M. J. Meehan & Co. with respect to this Radio pool, your attention was called to certain of these matters which you heard me ask Mr. Bragg about, is that correct?

Mr. McCONNACHIE. Yes.

Mr. GRAY. Have you looked into and can you give me any explanation of the distribution of the \$92,000 that was paid out to people who were not participators in this pool?

Mr. McCONNACHIE. No, sir. I have no knowledge of it.

Mr. GRAY. Your books do not show the reason for it at all, do they?

Mr. McCONNACHIE. I haven't the details in mind as to that transaction.

Mr. GRAY. F. J. Thiel works for your company, does he not?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Do you know why he should be paid \$10,000 out of this syndicate or pool?

Mr. McCONNACHIE. Only I believe that F. J. Thiel had a trading account with the firm and he might have been included in the syndicate to a limited amount of stock without signing a syndicate agreement.

Mr. GRAY. His name does not appear on your books, as a participant?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Why would you make him a present of \$10,000?

Mr. McCONNACHIE. Because he may have been regarded as a valued client of the firm.

Mr. GRAY. As a valued client of the firm?

Mr. McCONNACHIE. A valued customer of the firm.

Mr. GRAY. Well, he worked for you, didn't he?

Mr. McCONNACHIE. Besides being a partner he may have had a trading account.

Mr. GRAY. He is a partner, is he?

Mr. McCONNACHIE. Yes.

Mr. GRAY. And you give him \$10,000 just because he was a valuable customer as well as a member of the firm?

Mr. McCONNACHIE. He may have lost money in other trades which were recommended to him, and for that reason this might have been given to him, a participation, a small participation, to make up his losses in other trades. But I have no detailed knowledge as to any of these transactions.

Mr. GRAY. What right would Meehan & Co. have to give to one of their members of the firm who was also a customer, and also a client—I think you used both words in connection with him—\$10,000, because he had lost something in some other transactions, out of the moneys of these participants?

Mr. McCONNACHIE. I have no knowledge as to the actual transaction and the basis of it. I am only stating that as a possible reason why he was given a small participation.

Mr. GRAY. Who could tell us?

Mr. McCONNACHIE. Only Mr. Meehan himself.

Mr. GRAY. Where is Mr. Meehan?

Mr. McCONNACHIE. Mr. Meehan, as you know—

Mr. GRAY. Well, I want to get on the record where he is.

Mr. McCONNACHIE. Yes. Mr. Meehan, as you know, is a very sick man, and he sailed on the steamer for Europe the other night.

Mr. GRAY. When?

Mr. McCONNACHIE. I beg your pardon?

Mr. GRAY. When?

Mr. McCONNACHIE. He sailed last night.

Mr. GRAY. He sailed last night?

The CHAIRMAN. Because he was sick?

Mr. McCONNACHIE. I beg your pardon?

The CHAIRMAN. Because he was sick?

Mr. McCONNACHIE. The doctor advised him—three of the leading doctors of New York advised him to go away for a much-needed rest.

Senator BROOKHART. Are they participants in any of these pools?

Mr. McCONNACHIE. I beg your pardon?

Mr. GRAY. What was your question, Senator Brookhart?

Senator BROOKHART. Are those doctors participants in any of these pools?

Mr. GRAY. Senator Brookhart asks if those doctors were participants in any of these pools?

Mr. McCONNACHIE. I don't know who the participants were, other than those names whom you read out, and I don't believe you read out the name of any doctor.

Mr. GRAY. Doctor Ash is there.

Mr. McCONNACHIE. No; they are not participants.

Mr. GRAY. He is one that got \$10,000 out of this pool without any apparent interest in it.

Mr. McCONNACHIE. I don't know anything about him (meaning Doctor Ash).

Mr. GRAY. I will say to the committee that approximately two weeks ago I saw and interviewed Mr. Meehan, and there was no question, I say that in fairness, but what he at that time was not a well man. And when I determined, or was advised by the committee that we were going to have sessions to-day, I understood that Mr. Meehan was at Brown's Sanitarium at Garrison, N. Y. I sent someone there to subpoena him and found that he was not there. I was afterwards advised by Mr. McConnachie that he was at Mahopac, N. Y. We did not endeavor to locate him at Mahopac, N. Y. In the maze of things that we have had to take care of in the last few weeks, I thought that we had something more important, and we did have all of this Radio pool worked up from the books of Meehan & Co. where, after the little difficulty that we had with all of the brokers subsided, they were opened to us over there. This is the first information I have, however, that Mr. Meehan became well enough to sail for Europe last night.

Senator FLETCHER. Is Mr. Meehan the senior member of this firm?

Mr. McCONNACHIE. Yes, sir.

Senator FLETCHER. How long had he been in business?

Mr. McCONNACHIE. I think his seat on the stock exchange was purchased in 1920.

Senator BROOKHART. Who was the next man in authority after Meehan?

Mr. McCONNACHIE. I am the managing partner of the firm.

Senator BROOKHART. But you were not the manager at the time of this pool?

Mr. McCONNACHIE. No, sir.

Senator BROOKHART. Who was at the time of this pool?

Mr. McCONNACHIE. Mr. James P. McKenna was the office manager of the firm at that time.



Senator BROOKHART. Wouldn't he know about these matters?

Mr. McCONNACHIE. Why, I don't know how much he would know with reference to the details of the transactions.

Senator BROOKHART. Where is he?

Mr. McCONNACHIE. He is in New York City with another firm.

Senator FLETCHER. How many partners in this firm of Meehan & Co.?

Mr. McCONNACHIE. There were about nine partners, I believe.

Senator FLETCHER. Mr. Meehan was in the brokerage business before he bought a seat on the stock exchange?

Mr. McCONNACHIE. He was a member of the curb market.

Mr. GRAY. Are you through, Senator Fletcher?

Senator FLETCHER. Yes.

Mr. GRAY. Name the members of your firm will you? Mr. Michael J. Meehan is one. Your own name is James McConnachie?

Mr. McCONNACHIE. James F. McConnachie.

Mr. GRAY. Yes.

Mr. McCONNACHIE. Esmond O'Brien.

Mr. GRAY. Yes?

Mr. McCONNACHIE. Richard O'Brien. George Garlick.

Mr. GRAY. Spell that last name.

Mr. McCONNACHIE. G-a-r-l-i-c-k.

Mr. GRAY. Yes?

Mr. McCONNACHIE. James Meehan.

Mr. GRAY. Is he a brother of Michael J.?

Mr. McCONNACHIE. Yes. Mr. Thomas Meehan. Mr. Higgins.

Mr. GRAY. Which Higgins? Joseph?

Mr. McCONNACHIE. Peter J. Higgins.

Mr. GRAY. Is he a brother of Joseph?

Mr. McCONNACHIE. No relation.

Mr. GRAY. No relation? All right.

Mr. McCONNACHIE. Did I mention Mr. Thomas Meehan?

Mr. GRAY. Yes. Is that all?

Mr. McCONNACHIE. That is all.

Mr. GRAY. Now, you know, do you not, from the records of your concern——

Mr. McCONNACHIE. Oh, Mr. Frank Thiel.

Mr. GRAY. Mr. Frank Thiel?

Mr. McCONNACHIE. Yes.

Mr. GRAY. The one that got that \$10,000, and you forgot him as a member of the firm. You know from the records of your concern—or let me ask you a question first. Are your firm or any of its members specialists in Radio to-day?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Who?

Mr. McCONNACHIE. Why, the firm.

Mr. GRAY. The firm?

Mr. McCONNACHIE. The firm.

Mr. GRAY. So that any member of the firm may act on the floor as a specialist in Radio?

Mr. McCONNACHIE. They may, but the work is done—is handled almost exclusively, in so far as it can be handled by one man, by Mr. O'Brien.

Mr. GRAY. Mr. Esmond O'Brien?

Mr. McCONNACHIE. Mr. Esmond O'Brien.

Mr. GRAY. And he has been with the firm how long?

Mr. McCONNACHIE. Practically since its inception.

Mr. GRAY. Yes. And in 1929 when your firm was operating this new Radio stock pool he was the specialist on the floor of the exchange in Radio? Is that right?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Now as a matter of fact, in that time there was more than one specialist, wasn't there?

Mr. McCONNACHIE. Well, there were those who did operate in Radio, but we have always been regarded as the leading specialist in Radio.

Mr. GRAY. Yes; but more than one member of your firm would have acted at that time as specialist on the floor in Radio?

Mr. McCONNACHIE. Well, others assisted in handling the stock on the floor.

Mr. GRAY. Yes; but O'Brien had control of the situation?

Mr. McCONNACHIE. Yes.

Mr. GRAY. All right.

Senator FLETCHER. What is the stock outstanding of Radio?

Mr. McCONNACHIE. I beg your pardon?

Senator FLETCHER. What is the Radio stock outstanding now?

Mr. McCONNACHIE. I couldn't tell you.

Senator TOWNSEND. Five million no par shares.

Mr. GEORGE K. WATSON (accountant). Thirteen million shares.

The CHAIRMAN. The accountant says 13,000,000 shares.

Senator FLETCHER. I should think those who specialize in Radio and handling it and dealing in it all the time should know something about how much stock is outstanding.

The CHAIRMAN. There seems to be no limit.

Senator BROOKHART. In this kind of a pool you are not interested in the amount of stock outstanding, are you? In pools manipulated like this one?

Mr. McCONNACHIE. Well, the great bulk of the stock of Radio has always been held by the General Electric Co. and the Westinghouse.

Senator BROOKHART. Hasn't been on the market at all?

Mr. McCONNACHIE. Why, there has been a large floating supply of stock, but they have been the principal stockholders in Radio Corporation.

Senator BROOKHART. They have kept back enough to control it without putting it on the market at all?

Mr. McCONNACHIE. Well, I do not know about that, sir.

Senator COUZENS. Have you been happier since you were in the brokerage business than you were with the United States Treasury?

Mr. McCONNACHIE. Well, unfortunately, since I have been in the brokerage business it has been rather on a decline and it has not been a very happy business to be in. But I am so devoted to Mr. Meehan that I am very happy to be with him, particularly in times of stress and turmoil, because he is a man of very high character.

Senator BROOKHART. High speed, too?

Mr. McCONNACHIE. I beg your pardon?

Mr. GRAY. "High speed," Senator Brookhart very properly said.

Mr. McCONNACHIE. High speed—well, he isn't very high speed to-day, because he isn't a very well man.

Senator FLETCHER. What is his age, about?

Mr. McCONNACHIE. Forty years of age.

Senator BROOKHART. Well, there are more than one kind of pools. That is, they are formed for several different purposes, aren't they?

Mr. McCONNACHIE. Well, you speak of pools. I don't know what—

Senator BROOKHART. Syndicates?

Mr. McCONNACHIE. I don't know exactly what you mean by pools. Now, in this—

Senator BROOKHART. Well, do you call this a pool or a syndicate?

Mr. McCONNACHIE. Well, you can call it either. I suppose it might be known as a pool, and it might be referred to as a syndicate.

Senator BROOKHART. Well, this was not a syndicate or pool formed to sell the original stock to the public, was it?

Mr. McCONNACHIE. No.

Senator BROOKHART. To float a new issue? Anything of that kind?

Mr. McCONNACHIE. No.

Senator BROOKHART. This was just formed to go in and manipulate the market and take the public's money away from them?

Mr. McCONNACHIE. Well, that is your definition, Senator, of a pool—or that is your definition of this particular transaction.

Senator BROOKHART. Well, that is what it did, didn't it?

Mr. McCONNACHIE. That may have been the effect of it. But I question seriously the correctness of that assumption.

Senator BROOKHART. Well, it did not promote any new enterprise or start any new industry or anything of that kind, did it?

Mr. McCONNACHIE. Except that the company itself was starting new industries continuously. They were extending their business—

Senator BROOKHART. Was this pool formed to help them do that?

Mr. McCONNACHIE. No, sir; I would not contend that. The pool was organized before I became a partner of M. J. Meehan & Co.

Senator COUZENS. Have there been any pools started since you have been a member?

Mr. McCONNACHIE. No, sir.

Senator COUZENS. No pools or syndicates have been started since you have been a member of the firm?

Mr. McCONNACHIE. No, sir. This radio pool, as you term it—

Mr. GRAY. Yes.

Mr. McCONNACHIE (continuing). Is an operation in connection with which you have shown a very substantial profit.

Mr. GRAY. Yes.

Mr. McCONNACHIE. But our records show that we had holdings in companies of substance and that are very well known where the results instead of showing a profit show a loss of over \$8,000,000.

Mr. GRAY. Over what period of time?

Mr. McCONNACHIE. Over practically the same period of time.

Mr. GRAY. Not over this week—

Mr. McCONNACHIE. Not the same period of time in which you give the facts in connection with the operation of Radio—of the new stock, as you have described it—but in that particular matter where Mrs. Meehan was a participant her profits were \$378,000, and

I have here five transactions, some of them in connection with securities that the firm specialize in, showing losses of \$8,200,000.

Senator COUZENS. They were not the same partners though, were they?

Mr. McCONNACHIE. I beg your pardon?

Senator COUZENS. They were not the same partners all the time, were they?

Mr. McCONNACHIE. No, sir.

Senator COUZENS. Mr. Gray is talking about one particular pool with one set of partners, and now you are mixing up a lot of other cases that have nothing to do with the Radio case.

The CHAIRMAN. And picking out certain transactions and detailing them instead of taking anything that is relevant to the matter under inquiry.

Mr. GRAY. And not considering others in which other money was made. In other words, he is now showing you as an offset to Radio, certain pools in which money was lost. Mrs. Meehan was a very heavy trader, wasn't she, Mr. McConnachie?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. And that was Mr. Meehan's account?

Mr. McCONNACHIE. No; it was Mrs. Meehan's account.

Mr. GRAY. All right; it was Mrs. Meehan's account.

Senator COUZENS. Did she operate it herself?

Mr. GRAY. She never came in your place, did she?

Mr. McCONNACHIE. Rarely. She had—

Mr. GRAY. Who operated it, then—to put Senator Couzens's question in another way—Mr. Meehan, didn't he?

Mr. McCONNACHIE. You would have to obtain the facts from Mr. Meehan. I do not know personally.

Mr. GRAY. Who has operated Mrs. Meehan's account in the last two years since you have been there. Who has given orders to buy and sell?

Mr. McCONNACHIE. They were never given to me, sir, so I couldn't—I can't—

Mr. GRAY. You are a next senior member of the firm and you don't know who gave the orders to buy and sell in Mrs. Meehan's account?

Mr. McCONNACHIE. I am the managing partner.

Mr. GRAY. All right; that puts you, then, much closer to the throne. Tell me who gave the orders to buy and sell Mrs. Meehan's stock, please.

Mr. McCONNACHIE. I couldn't say definitely.

Mr. GRAY. Have no idea?

Mr. McCONNACHIE. Yes; I have an idea.

Mr. GRAY. What is your idea on the subject?

Mr. McCONNACHIE. I surmised that Mr. Meehan gave those instructions usually, but not always.

Mr. GRAY. You would be taking a very long chance if you surmised it was anybody else, wouldn't you?

Mr. McCONNACHIE. I believe that Mrs. Meehan did occasionally, but I would say that Mr. Meehan usually did it.

Mr. GRAY. Was Mrs. Meehan's account the firm account?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Now, the firm did have an account and traded on their own account, didn't they?

Mr. McCONNACHIE. I don't believe so.

Mr. GRAY. Mr. Meehan's account consisted—

Mr. McCONNACHIE (interposing). I think I can almost say emphatically no; that the firm never did trading on its own account.

Senator GLASS. What difference does it make in the principle of the thing whether a syndicate loses money or makes money, if it was organized to manipulate the market?

Mr. GRAY. Before I get through I will show you some ways they lost money that have features in them that I think are deserving of attention.

Senator BROOKHART. How much did this particular pool cost the public?

Mr. McCONNACHIE. In the first place, Senator, I have made the statement that I am not familiar—that happened before I went with the firm.

Senator BROOKHART. You seem to have some others there, though, when the pool lost. So I thought maybe you could tell how much the public lost.

Mr. McCONNACHIE. These are not figures in reference to pools. These are figures I have got here in reference to personal purchases of stock, and the later sales of that same stock, some of the stock representing securities in which the firm was specialist, where the losses involved millions of dollars.

Mr. GRAY. In other words, you are only showing us, however, the account of Mrs. Meehan, a customer of your firm, in which your firm is not interested.

Senator COUZENS. Mr. Chairman, in that connection I think I am going to ask to have this expunged from the record unless he submits the names of the concerns in which they lost \$8,000,000. In other words, Mr. McConnachie is putting in the record a matter that is not before us, but if he chooses to go on and say what stocks and in what operation Mrs. Meehan lost this money, why, I will not object.

Mr. McCONNACHIE. I submit herewith a list representing the losses in the different operations.

The CHAIRMAN. And the dates of them?

Mr. McCONNACHIE. No; I haven't the dates here.

The CHAIRMAN. I suggest that the record should be complete to that extent, or we can not use it.

Senator GLASS. Well, if it was not a syndicate operation, and it was not a pool operation, it is not pertinent to this inquiry.

Mr. GRAY. No; I say to Senator Glass that we have requested not only from this firm but from other firms where Mrs. Meehan's accounts were kept, transcripts of their accounts. We are getting them. They are in immense volume. We expect to analyze them, not only in connection with the operations of Meehan & Co. but in connection with Mrs. Meehan's operations on the short and the long side of the market. When we were asked to come down here this morning, we concentrated on those things that we thought we would have in more or less complete form. Those things we have not been able to bring. I have Mr. Meehan's accounts and Mr. Brush's accounts and Mr. Ben Smith's accounts. There is a tremendous volume. We are going through them. If Senator Couzens is through—I don't know whether you were through with that part?

Senator COUZENS. He was going to read a list of the stock. We might, as long as he has that, have him read off a list of the stocks in which these losses occurred.

Mr. McCONNACHIE. International Match, 2,700,000.

Senator GLASS. Is this Mrs. Meehan's loss?

Mr. GRAY. So the record will show, is that the loss of Mrs. Meehan in dollars?

Mr. McCONNACHIE. Yes.

Mr. GRAY. This is Mrs. Meehan?

Mr. McCONNACHIE. Yes.

Mr. GRAY. A client of yours?

Mr. McCONNACHIE. Yes. American Steel Foundries, 730.

Senator COUZENS. Thousand?

Mr. McCONNACHIE. Yes.

Senator TOWNSEND. \$730,000?

Mr. McCONNACHIE. \$730,000. General Asphalt, \$570,000; Simms Petroleum, \$4,000,000; Chrysler, \$200,000. In this connection I would like to draw the committee's attention to the fact that, although we are specialists in International Match and Steel Foundries, this fact did not prevent a loss of over \$3,400,000 in connection with these two securities.

Mr. GRAY. Most of which was Match, because you got caught just at a bad time?

Senator GLASS. That means losses on paper in the present status of the market?

Senator WALCOTT. Well, does it? Have you taken those losses?

Mr. McCONNACHIE. Those are actual losses.

Senator WALCOTT. Those are actual losses, are they not?

Mr. McCONNACHIE. Yes, sir; these are actual losses.

Mr. GRAY. Have you completed that?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. I want to make this very clear. We were discussing with you M. J. Meehan & Co.'s handling of a new Radio Syndicate, and the things that appear on their books. No question was asked you at all about Mrs. Meehan's account. Why do you present to this committee a picture of Mrs. Meehan's losses in certain stocks, when M. J. Meehan & Co. had no interest whatsoever in that transaction? What is your purpose in presenting it?

Mr. McCONNACHIE. Well, my purpose in presenting it is in view of the fact that the matter that you are presenting, and that is the question of profits in this so-called radio pool——

Mr. GRAY (interposing). That is, profits of the participants in the pool?

Mr. McCONNACHIE. Involves not the firm of M. J. Meehan & Co. or Mr. M. J. Meehan personally, but only involves Mrs. Meehan. So I was pointing out as against this small profit of \$378,000 in this transaction there are over \$8,200,000 losses in other transactions, and two of these losses representing stocks in which the firm acts as specialist.

Mr. GRAY. Yes. All right. Well, you are telling us something about Mrs. Meehan's transactions, on which we have not asked anybody. M. J. Meehan & Co., however, out of that radio pool got a split in the manager's fees amounting to over a quarter of a million dollars, didn't they?

Mr. McCONNACHIE. I don't know anything about that.

Mr. GRAY. And got commissions of over \$580,000?

Mr. McCONNACHIE. I don't know anything about that.

Mr. GRAY. Now, let me ask you—

Senator GLASS (interposing). Therefore, I say that the testimony he is presenting now with respect to Mrs. Meehan is not at all pertinent to this inquiry. That simply indicates that she unfortunately dealt on her own account with respect to these stocks and did not enter a pool.

Mr. GRAY. That is all. She not only dealt in her own account but she dealt in pools in those transactions, but I am not concerned in this inquiry, unless this committee is, or any member of it, with what Mrs. Meehan may have made or lost only as it was in connection with the records of that particular pool.

Senator BROOKHART. Let me ask you on this proposition: You have shown up her losses here. Did she have profits on other transactions that you have not shown up?

Mr. McCONNACHIE. I would say that she must have had profits on other transactions.

Mr. GRAY. So you have not got the net position at all.

Senator BROOKHART. You do not know whether they were fifteen million or twenty million, or what they were?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. I have several questions to ask him, but I am not going to ask him about that particular part. I want to ask you about this radio pool. What, if anything, do you know about the General Electric Co. entering into an agreement with Meehan & Co. not to sell during the time of the operation of this pool, during that one week from March 12 to March 19—anything?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Have you heard any discussion of it at all?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Knew nothing about it? After this pool was started and since you—by the way, can you give us the exact date you went with Meehan?

Mr. McCONNACHIE. Yes; in June 1930.

Mr. GRAY. Since then has M. J. Meehan or M. J. Meehan & Co. or Mrs. Meehan—and I am now asking you about that because I am treating it as an account in which M. J. Meehan was interested—been short on Radio?

Mr. McCONNACHIE. I could not say.

Mr. GRAY. You mean you have no recollection of accounts of the firm or in accounts of M. J. Meehan or in accounts of Mrs. Meehan whether or not they have had a consistent short position since you have been with the firm?

Mr. McCONNACHIE. I could not say.

Mr. GRAY. Are they short on the books now in Radio?

Mr. McCONNACHIE. I would say no, but I could not make a positive statement.

Mr. GRAY. All right; your answer is that you do not know. I want to say to you—and I am stepping up from Radio to get just one bit of information while he is on the stand—did you know of an account, Account No. 118, which is the account known as Joseph E. Higgins and Bradford Ellsworth?

Mr. McCONNACHIE. I didn't know that there was such a joint account.

Mr. GRAY. Do you know an account known as No. 815?

Mr. McCONNACHIE. Not by number. If you would tell me the——

Mr. GRAY (interposing). Do you know an account No. 815 in which Higgins and Bradford Ellsworth operated in Electric Autolite Co.?

Mr. McCONNACHIE. I know the stock Electric Autolite, but I don't know of any such account.

Mr. GRAY. Did Meehan & Co. have an option to buy a certain amount of Electric Autolite stock?

Mr. McCONNACHIE. I know that there was an option in the office on Electric Autolite, but as to who had that option I couldn't say.

Mr. GRAY. Some member of your firm?

Mr. McCONNACHIE. I don't believe that the firm had it.

Mr. GRAY. And against that option there was a short operation, wasn't there?

Mr. McCONNACHIE. In other words, you mean to say that the stock was sold or was oversold?

Mr. GRAY. No, I mean to say that the stock was sold short and the option never taken up because of the drop in the market that was forced by the short selling; is that right?

Mr. McCONNACHIE. I couldn't say.

Mr. GRAY. We have the records and the books. We will present that later.

Mr. McCONNACHIE. The books will show it.

Mr. GRAY. You had an operation in Simms Petroleum, didn't you, in which your firm of M. J. Meehan & Co. were the managers of another pool?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Do you remember an item of \$10,000 that was paid out in Simms Petroleum to somebody?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Did you have anything to do with the payment of such an item to anybody aside from the pool participants?

Mr. McCONNACHIE. I think that started before I went with the firm, that is, the operation in Simms Petroleum.

Mr. GRAY. I understand that is correct. That is all I want to ask him. I want to put the specialist on and then we will conclude with that. Mr. O'Brien.

#### TESTIMONY OF ESMONDE F. O'BRIEN, NEW YORK CITY

Senator FLETCHER (presiding). State your name and place of residence and occupation.

Mr. O'BRIEN. Esmonde F. O'Brien, business address 30 Broad Street, New York City, 33 years of age.

Senator FLETCHER (presiding). Do you solemnly swear that the evidence you give in this matter will be the whole truth and nothing but the truth, so help you God?

Mr. O'BRIEN. I do.

Mr. GRAY. Mr. O'Brien, you are a member of the firm of M. J. Meehan & Co.?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. You have been so for how long?



Mr. O'BRIEN. I have been a member of the firm since December 31, 1924.

Mr. GRAY. And you were the member of the firm that acted as the specialist on the floor in Radio; is that correct?

Mr. O'BRIEN. I have generally been the Radio specialist.

Mr. GRAY. And you were in 1929 in the month of March?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. You were the specialist and the member of the firm who executed the orders for new Radio stock in which this pool that we have here been discussing was carried out; that is right, isn't it?

Mr. O'BRIEN. Well, it is right in a sense. I was the specialist in general. I executed everybody's orders that was a member of the stock exchange, and in being the specialist I may, and probably did, execute pool orders or syndicate orders.

Mr. GRAY. No question about that?

Mr. O'BRIEN. No, sir.

Mr. GRAY. You must have been the one who executed them?

Mr. O'BRIEN. Not the one. I was one of the ones, probably.

Mr. GRAY. Well, you were the one who in those busy days had the control of the other members of your firm or others who were acting as specialists; they were under you; that is correct, isn't it?

Mr. O'BRIEN. Well, if you will let me explain.

Mr. GRAY. Yes; I wish you would.

Mr. O'BRIEN. Our books, the Radio books at the time—

Mr. GRAY (interposing). By Radio books you mean the specialist Radio books?

Mr. O'BRIEN. Yes; specialist's books. I have sheets here if you would like to see them.

Mr. GRAY. Why, yes; I think some of the committee would like to see how they are kept.

Mr. O'BRIEN. This may not be what you are asking, but I will be glad to go into it.

Mr. GRAY. That is all right.

Mr. O'BRIEN. We have loose-leaf books. You see, I only have these sheets with me. They go in a binder, the binder on each side, and they are divided off into the fractions, you see, an eighth and a fourth and a half, and so on.

Mr. GRAY. Wait—you are going a little rapidly with it. What do you mean by divided off into fractions?

Mr. O'BRIEN. Well, for instance, I say you get—supposing Radio is 80.

Mr. GRAY. Yes.

Mr. O'BRIEN. This page would be marked 80 on the top here.

Mr. GRAY. Yes.

Mr. O'BRIEN. And orders at 80 would be entered at the section of this page where 80 mark is on.

Mr. GRAY. Then there are various places down the page for the various fractions in eighths until it reaches 81 or  $80\frac{7}{8}$ ?

Mr. O'BRIEN. Yes; that is quite correct.

Mr. GRAY. So that you enter on those sheets what the particular fraction is on that page?

Mr. O'BRIEN. That is correct.

Mr. GRAY. And you have one page for the buying and one for the selling?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. All right. I will be glad for you to go right ahead and explain it, but specifically with respect to Radio, which will mean generally, of course, how the specialist operates.

Mr. O'BRIEN. How the specialist operates. These sheets are kept in these looseleaf binders. At the particular time, in 1927, 1928, or 1929—those were the three biggest years, as I recall—the volume was very, very big, particularly in Radio. It was big on the whole floor in every stock. Where there was so much trading we often had to split this book. I mean by that that we would have one book with all the 80 stock in it, you see, the even stock at 80. Another book would have the 81 stock. Do you follow what I mean?

Mr. GRAY. Yes; I am following.

Mr. O'BRIEN. And that was with the two books. Now, you would get a swarm of orders at all different prices, both above and below and at the market in Radio, not alone from M. J. Meehan & Co., which was my office, or my firm, but from every member on the stock exchange whose customers were trading in Radio.

Mr. GRAY. Let me stop you there just a minute.

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Is it not a fact that nearly every brokerage house in New York, nearly every one, that at that time had orders to buy or sell Radio, felt that it would be better for them and their customers to send it through Meehan & Co., and didn't they usually do it?

Mr. O'BRIEN. I don't believe so; no, sir.

Mr. GRAY. You don't believe so?

Mr. O'BRIEN. I don't see how they could, because the volume could not be handled by one firm.

Mr. GRAY. All right; go ahead.

Mr. O'BRIEN. In addition to the book in the active crowd on the stock exchange there might be anywhere from 20 to 40 brokers—it is a big skip, but that is so—with both buying and selling orders for their house or their firm's clients.

Mr. GRAY. You mean there might be 20 or 40 brokers who, in addition to the specialists, would be around the post known as the Radio post?

Mr. O'BRIEN. That is correct.

Mr. GRAY. And they may have either buying or selling orders?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Which they may or may not, as the circumstances justify it, leave with the specialist for execution?

Mr. O'BRIEN. Quite right.

Mr. GRAY. All right; go ahead.

Senator COUZENS. How many assistants as specialists did you have?

Mr. O'BRIEN. Well, I should say two in these particular times.

Senator TOWNSEND. They were both members of your firm?

Mr. O'BRIEN. They were both members, but we had another man that was not a member that had to come in and help us out on occasional days, for three or four days in a row.

Senator TOWNSEND. What firm?

Mr. O'BRIEN. His name was Stanley Kohn, a member of the stock exchange.

Senator TOWNSEND. He had all the information that you had as a specialist?

Mr. O'BRIEN. He would have the information that the book would show him; yes, sir. But, according to the rule of the stock exchange, he is a specialist and he is bound under that rule just the same as I would be, you see.

Senator COUZENS. So, in effect, there were really four specialists, including yourself and assistants?

Mr. O'BRIEN. Yes, sir; on these busy days there were three or four.

Senator COUZENS. And they had possession of the books in the same way you did?

Mr. O'BRIEN. Yes. Now, you asked about how the orders would come through me. An order, when it is entered or given to the specialist, generally comes in, unless it is a verbal order—very few verbal orders; most of them are written. This, unfortunately, is not a regular order pad, but it comes in with the firm's name, giving it on the bottom of it, and on the top it is marked buy or sell so many thousand shares or the units of shares, and the price that is marked on the other side. That comes in and is left with the specialist. If the broker who brings it in can not execute it himself and does not care to wait in the crowd until he thinks he might be able to execute it.

Mr. GRAY. Now, all of the orders brought through M. J. Meehan & Co. would have been left with you or one of the other specialists?

Mr. O'BRIEN. Well, I would say a good many of them might have been coming in.

Mr. GRAY. Well, what other brokers would come in there with orders from M. J. Meehan & Co. in Radio?

Mr. O'BRIEN. Well, floor brokers, for instance.

Mr. GRAY. They would not bring them from M. J. Meehan & Co.?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. How would they get them?

Mr. O'BRIEN. From the clerk.

Mr. GRAY. From whose clerk?

Mr. O'BRIEN. My telephone clerk.

Mr. GRAY. Your telephone clerk?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Do you mean to tell me that your telephone clerk of M. J. Meehan & Co. would send either buy or sell orders to some other broker on the floor when you and three other assistants, two others of whom were members of your firm, were there acting as specialists in Radio; that they would send it to some other brokers?

Mr. O'BRIEN. He might.

Mr. GRAY. Why?

Mr. O'BRIEN. Why? To get a quicker report.

Mr. GRAY. How much quicker could he get a report from some other broker than he could get it from you, a member of the firm?

Mr. O'BRIEN. He could get it this much quicker, in this way: You must remember that when you are specializing you can not sit at a table like we can now and write your orders down as carefully as I could write them at this table.

Mr. GRAY. Yes.

Mr. O'BRIEN. As I mentioned before, there are 30 or 40 men milling around pushing each other all over. I suppose you have seen the floor of the exchange. If you have not, it is a hard thing to imagine how excited they become down there in a busy market, pushing you all over, pulling your collar and tie out, losing pencils and pads or anything—with a waving of the hands. Do you see what I mean.

Mr. GRAY. I see; yes.

Senator GLASS. Lose your money, too?

Mr. O'BRIEN. Yes; sometimes.

Mr. GRAY. But, Mr. O'Brien, I am probably a little bit astonished at your statement. You testified that you are a member of the firm of Meehan & Co.?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. On the floor specializing in this Radio stock?

Mr. O'BRIEN. That is quite right.

Mr. GRAY. Here are two other members of your firm of Meehan & Co. on the floor handling Radio orders as specialists therein, and occasionally, as you said, probably a fourth man that you had to take some outside?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. But here are three members of the firm of Meehan & Co. But if Meehan & Co. gave that order to another member there is a division of commission?

Mr. O'BRIEN. There is a \$2.50 extra charge.

Mr. GRAY. Do you mean to tell me that Meehan & Co., who could give the orders to you men that were specializing in Radio, and therefore could execute such an order with much more rapidity than any outside broker could, would send that order to an outside floor broker and ask him to go into this mob that you are talking about and try to execute it?

Mr. O'BRIEN. I think it is quite possible that they did. I don't say that it is sure, but I say it has been done.

Mr. GRAY. Oh, it might happen in some extraordinary instances.

Mr. O'BRIEN. I would like to keep on the same story about the office; they may not have sent the orders over our phone, for instance. Whoever was handing out these orders, the pool managers, syndicate managers, or whatever office they were in; whether they were in ours or not I have no knowledge.

Senator BROOKHART. What instructions does your clerk have in transmitting these orders? Were they to transmit them to you or to somebody else?

Mr. O'BRIEN. Well, Senator, they come over the telephone from the order room in the main office, you see, down to the floor of the stock exchange, where we have a clerk. There is a clerk who is up in the office, you see, and all orders are transmitted from the clerk in the order room to the clerk on the floor.

Senator BROOKHART. That is the exchange clerk you are talking about?

Mr. O'BRIEN. No; it is our own clerk.

Senator BROOKHART. That is why you instruct those clerks to take these orders and send them to other people than your own specialists?

Mr. O'BRIEN. Well, the only answer on the question that I may not have executed all the orders or many of them—

Senator BROOKHART. What I want to get at is whether or not the clerks did that under your instruction or whether it just happened.

Mr. O'BRIEN. No; it is a general practice on the exchange for the clerks who are, in addition to their own floor member of the exchange, on the exchange floor—do you see what I mean?

Senator BROOKHART. Yes.

Mr. O'BRIEN. For instance, the stock exchange—take any name you like—they have one or two members who are members of the stock exchange on that floor, those one or two members will at times be busy and can not be there all the time; they may want to go out. So in addition to those, these clerks have a list of buttons on their booths and they can press and call another floor broker—\$2 brokers, they call these floor brokers.

Senator BROOKHART. They first try you and if you can not attend to it they get those?

Mr. O'BRIEN. They might have; yes. That is quite true.

Senator GLASS. We are talking about the usual practice. We are not talking about the exceptional instances.

Mr. O'BRIEN. Now you asked me about my getting all the orders. It is quite possible, as I said before, that the syndicate or pool manager may have given the orders over the telephone to the office of some other broker.

Mr. GRAY. Now, have you told us all about the operations of a specialist? If not, I do not want to stop you, if you are not finished, because we are anxious to know anything else that you can tell us about the specialist.

Senator COUZENS. Let him finish his story about how the specialist does it and how he finished up his job.

Mr. O'BRIEN. These books are kept—normally, in a normal market it only takes one book. In an exceptional market it took more. They are kept all day long and there are quite a number of changes in the book. The book never remains constant very long. I should say in an active market it changes once a minute, the quantities of stock to be bought and sold on the specialist's book, because if the market starts to show a strong tone you will have people all over the country who are watching the ticker sending in cancellations or changes in their limits. Do you follow?

Senator GLASS. Would you call that investment?

Mr. O'BRIEN. Would I call that investment?

Senator GLASS. Yes.

Mr. O'BRIEN. Well, you might call it speculative investment, Senator. I don't know what you might call it.

Mr. GRAY. What do you mean by speculative investment?

Senator GLASS. Isn't it betting on the state of the market at a given time?

Mr. O'BRIEN. All I can say is I think it might be considered like anything else; they buy them with the hope of selling them higher.

Senator GLASS. Yes; the next minute?

Mr. O'BRIEN. Well, I guess five minutes; if they could get it, they would be willing to wait that long.

Senator GLASS. That is not Mr. Webster's or Mr. Worcester's definition of "investment," is it?

Mr. O'BRIEN. I am sorry, sir; I really don't know either one of their definitions.

Senator BROOKHART. It is not necessary to know what an investment is to run this stock-exchange business, is it?

Mr. O'BRIEN. No, sir; I don't know much about investment myself, as my accounts will probably show you.

Senator GLASS. The reason I asked you that is because Mr. Whitney testified here that that was investment.

Mr. GRAY. He also said that he never heard of a pool.

Senator FLETCHER. Do these books remain in the possession of a specialist all the while?

Mr. O'BRIEN. Yes, sir. I was just going to get to that.

Senator TOWNSEND. That was your picture.

Mr. O'BRIEN. We have these numerous changes all day long in the sheets of the specialist's book. The stock might run from a total volume of thirty or forty thousand shares to the point. You see what I mean—the volume might vary between thirty and forty thousand shares on each point up and below. These changes take place all day. And when they get up to the office we would have a stock of orders to fill a big bag that high with cancellations and changes of limits. Sometimes we would have 14 and 15 orders all relating to one original order. Now, in the evenings and the nights at that time the specialist did not go home at 3 o'clock. I was in the office most nights until 12 o'clock and most of Sundays straightening out trades that had become confused.

Senator TOWNSEND. Did you have assistants in that work?

Mr. O'BRIEN. We all had to stay down; yes, sir; and straighten out the trades, and so forth, telephone calls and claims from other houses whose customers thought the time their order has been entered should have entitled them to a better price according to the tape and the time that the order was stamped, and so on. We had to sit there at night listening to these complaints and straightening them out where they were justified, and that took up until 8, 9, or 10 at night on those days.

Senator TOWNSEND. Who would be familiar with these books except the specialist himself?

Mr. O'BRIEN. With these books?

Senator TOWNSEND. Yes.

Mr. O'BRIEN. The only ones that would be familiar with those books would be the clerks who would write them up after 3 o'clock.

Senator TOWNSEND. The clerks were familiar with those books as well as the specialist?

Mr. O'BRIEN. But that did not concern the day's business, sir. You see, most of your orders are day orders that expire at 3 o'clock. The great percentage of them are day orders, what is known as day order, which is only good for a day. There are three different kinds of orders which are recognized. One is the G. T. C. order, which means good till canceled. The next is G. T. M., good till a month, and the next order, the most common with New York houses, is a day order.

Mr. GRAY. Then, of course, there is a market order?

Mr. O'BRIEN. That would be a day order, because that would have to be executed that day.

Mr. GRAY. It could be a day order on a fixed price, too?

Mr. O'BRIEN. Yes. Sure. That is what I mean.

Mr. GRAY. Then it could be a market order, which is a day order?

Mr. O'BRIEN. Yes, sir; but you see the day orders expire at 3 o'clock. So in answer to the clerks having this information, they would only be checking over our books to see if so-and-so got a report on his 500 shares. The particular house will call up and say, "All right; we didn't get a report on a thousand Radio you had to buy for us at 80½." So the clerk or myself, or if I am busy some place else he might do it for me, would look in a book and see if I bought a thousand from some other house on the Street.

Senator TOWNSEND. In other words, the clerks would be familiar with it as well as the specialist?

Mr. O'BRIEN. That day's business that had just gone through. He would not see these books until after 3 o'clock.

Senator COUZENS. So in effect the specialist has a lot of very worth while information during the course of the day's market operations?

Mr. O'BRIEN. Sir, I never found it of much benefit, because the volume is so big, in my stock. Now, I can not speak in general, because since I have been a member of the exchange I have been principally, in fact entirely, in our own specialties, and Radio, of course, is a very big volume stock, and I do not think the book shows anything one way or the other.

If I may answer about the stop orders that you asked about before, I can do that in connection with the book.

Mr. GRAY. Go ahead.

Mr. O'BRIEN. The only possible place where a book might show anything and where a specialist is bound to keep the information strictly to himself is caused by stop orders. And that is not limited to members of the stock exchange. A stop order can be put in by any customer trading in any office in the Street, as you know, and he does not get any information any more than another member of the exchange will get information as to what condition the book is in at that particular price that he wants to put the stop on. He puts the stop order on. We will assume that I have bought 500 shares of radio, and I am a customer that is not a member of the stock exchange. I mean I am just sitting up in my office some place or in my branch office, and I buy 500 Radio at 80 and I do not want to take a bigger loss than 2 points on that 500 shares. So I give that 500 shares to sell at 78 stop.

Mr. GRAY. That is a stop-loss order?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. That is an entirely different thing.

Mr. O'BRIEN. No, sir.

Mr. GRAY. Oh, yes.

Mr. O'BRIEN. Will you let me elaborate on it?

Mr. GRAY. A stop order is an entirely different thing from a stop-loss order.

Mr. O'BRIEN. What is the difference?

Mr. GRAY. The stop-loss order is an order that you give after you have bought a stock at 80, as you have indicated.

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. And if it goes down to a point where it reaches 78 you are automatically out, because your broker automatically sells you or stops your line at that point.

Mr. O'BRIEN. That is right.

Mr. GRAY. We are talking about stop orders where orders are given to sell at a point below the present market and orders are given to buy at a point above the present market, which requires knowledge of the specialist's book—I say; Mr. Bragg says it does not—orders on the specialist's books to let the trader determine whether he thinks it is worth while to do that.

Mr. O'BRIEN. Well, we never get a full stop-loss order, because when an order reaches a point to be executed it becomes a day order.

Mr. GRAY. I think the entire committee understands what a stop-loss order is.

Mr. O'BRIEN. I do not see the difference yet, because it is put in at that price. The specialist does not know whether the man is long or short.

Mr. GRAY. The man who places a stop-loss order has to buy stock and wants to stop the loss at a certain point, but on a stop order he never buys any stock.

Mr. O'BRIEN. How would the specialist or anybody else know?

Mr. GRAY. I am not going to try to train you to answer questions or answer questions myself except what I have answered as to what happens on the exchange, when you know more about it than I do.

Mr. O'BRIEN. Well, I am very sorry, but I like to be clear on it. A stop order generally is known as a stop order. A stop loss order is the same as the stop order.

Mr. GRAY. All right.

Mr. O'BRIEN. I would like to be clear on it. That is my impression, that a stop loss order and stop order are generally known as the same thing.

Mr. GRAY. The distinction, as I see it, Mr. O'Brien—I do not want to prolong this discussion—is that on the stop loss order if a man has stock at 80, using that figure, he buys it at 80 and he wants to protect himself so that he will not lose more than \$2 a share, and he puts a stop-loss order in.

Mr. O'BRIEN. Yes.

Mr. GRAY. His broker must therefore automatically take him out of the market at 78 so that he does not lose 2 points.

Mr. O'BRIEN. It then immediately becomes a market order.

Mr. GRAY. When the price touches 78 his order automatically becomes a market order to take him out.

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. Now a stop order as Mr. Bragg explained it to us is where a man—we will take the same figure, 82—has no stock, but from information that he has as to the buying orders below 80 and as to the condition of the market on the specialist's book, he feels that the stock is going to go down. Therefore, he puts an order in to sell at 79, not stock that he has, but a short sale to sell at 79 if it reaches 79.

Mr. O'BRIEN. I can see where that could be done.

Mr. GRAY. What do you call that?

Mr. O'BRIEN. I call it a stop order, but it is generally used by the chart players. I am not pretending to know anything about



charts, but there are certain players in the Street that invest or speculate or whatever you call it, on these ups and downs. They figure that when a price breaks at a certain point it is going to go a certain place. They would not need any information from the specialist.

Mr. GRAY. There are certain resistant points and certain new marks that they figure?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. They think they know all about it?

Mr. O'BRIEN. Yes, sir; that is right.

Senator COUZENS. Let me get this clear. I understand what Mr. O'Brien says is a stop order, and I think I understand it the same way. He does not know whether it is a stop-loss order or a stop order or any other kind of an order when he gets it. If that is correct, that puts an entirely different aspect on the question of what a specialist does. In other words, I don't want any impression to go out here that these specialists are crooks if they are not. I mean, if I understand Mr. O'Brien correctly, he does not know whether it is a stop-loss order or any other kind of order except that it is a stop order when he gets it.

Mr. GRAY. I will go further than that, Senator. I will say that when a specialist gets an order he does not know anything about whether it is a short-sale order, whether it is an order to sell long stock, or what it is. It is simply, so far as he is concerned, an order to sell. Am I right about that?

Mr. O'BRIEN. You see, at the present time the exchange has a rule that you can not sell stock below the last sale. In that case orders are marked short to-day, but in general you are right. We do not know whether it is long stock or short stock or anything about it. In general I would say that a specialist is a \$2 broker or a commission broker who stays at one post and specializes in stocks that are listed at their post, that would be my definition, instead of running around the floor as a floor broker.

Mr. GRAY. Now, coming back to this Radio pool——

Senator GLASS (interposing). Right there let me ask a question prompted by Senator Couzens's question. Does not a specialist in a stock know the volume in which that stock is being dealt?

Mr. O'BRIEN. Doesn't he know the volume in which the stock has been dealt during that day?

Senator GLASS. Yes.

Mr. O'BRIEN. Anybody can get that information from an employee of the stock exchange who stands in any crowd. Each post of the floor has what we call a reporter, and he takes down the sales as they appear or happen in the crowd, and he sends that by a page boy over to a desk somewhat like that, and where the ticker operators are sitting. You see what I mean? And they send those sales out to a table where it is recorded—20,000 Radio or 5,000 Radio, and so forth.

Senator GLASS. What I am asking is, does not a specialist know the volume of orders to sell and the volume of orders to buy in that particular stock?

Mr. O'BRIEN. In his book?

Senator GLASS. Yes.

Mr. O'BRIEN. Yes, sir; he ought to have that.

Mr. GRAY. And he trades himself sometimes on that knowledge, doesn't he?

Mr. O'BRIEN. Well, he trades himself.

Mr. GRAY. On that knowledge?

Mr. O'BRIEN. I don't see that it is any knowledge. If you have 50,000 shares of Radio to buy from 80 down to 79 and you have 40,000 or 60,000 shares to sell from 80 $\frac{1}{8}$  up to 81, I do not know what knowledge that is. You can toss a coin up in the air and pick either side.

Mr. GRAY. Your answer, then, is that a specialist has knowledge, and though a specialist trades himself, the knowledge that the specialist has is no advantage to him in the matter of helping him to trade?

Mr. O'BRIEN. I don't think it is of any particular advantage.

Mr. GRAY. That is a matter of conclusion.

Senator COUZENS. I was going to ask you if you traded for yourself as a specialist.

Mr. O'BRIEN. Have I ever traded? Generally I have; yes, sir.

Senator COUZENS. As a specialist?

Mr. O'BRIEN. As a specialist, as a member of the firm, for the firm account.

Senator COUZENS. But not for your personal account?

Mr. O'BRIEN. I have no personal account.

Senator COUZENS. All your trading is for the firm?

Mr. O'BRIEN. All the trading.

Senator COUZENS. And you testify before this committee that your knowledge as a specialist and having that book before you have given you no advantage and you have gotten no advantage from that book in your trading operations?

Mr. O'BRIEN. I would say generally I do not see any advantage.

Senator COUZENS. Now just answer specifically. You say "generally." As a matter of fact, have you ever got any advantage?

Mr. O'BRIEN. No.

Senator COUZENS. In trading for Meehan & Co. yourself because you as a specialist had control of that book?

Mr. O'BRIEN. I do not think it gives you any knowledge.

Senator FLETCHER. What is the reason of the rule that the information shall not be given out?

Mr. O'BRIEN. Well, I should think that the rule applies to cases generally where the book might be in a weakened condition.

Senator COUZENS. What do you mean by a "weakened condition"?

Mr. O'BRIEN. Well, if you started where stop orders might build up, just under circumstances that we were talking about before; we get a group of stop loss orders, whether they are for long or short account; they would maybe get on your book, and you might get a possible balance to sell there of six or seven thousand shares.

Senator COUZENS. Wouldn't you have advantage of that knowledge when you come to trade?

Mr. O'BRIEN. But you are not allowed to use it.

Senator COUZENS. That is a different story.

Mr. GRAY. In other words, the whole difference is mental, if I may suggest to the committee. Here is a man that was the specialist

in Radio. Here is the man that was operating for Meehan & Co. You will have to draw your own conclusions as to whether it was an advantage.

Senator GLASS. I have already drawn mine.

Mr. GRAY. I brought this man down so as to give you a chance to draw some.

You are on the specialist proposition now and having no particular application to Radio. As a matter of fact, it has been common practice for people who wanted to raid a particular stock to get the knowledge of those stop loss orders from the specialist's book and drive the stock down to a point where all those stop loss orders will be taken up and the stock is wiped out; that is true, is it not?

Mr. O'BRIEN. Not as far as I know.

Mr. GRAY. You never heard of that being done?

Mr. O'BRIEN. I never heard of that being done; no, sir.

Mr. GRAY. Don't you know that everybody sitting around a brokerage office knows that it is being done? That is, they have reached down for stop loss orders and the stock goes up again? You never heard of that?

Mr. O'BRIEN. I have heard of it, but I never heard of it being done on the stock exchange.

Mr. GRAY. Where did they do it?

Mr. O'BRIEN. I don't know, but if it was done I know the member would be expelled.

Mr. GRAY. Of course, you can only tell what you know yourself. Have you traded yourself in Radio while you have been a specialist in Radio?

Mr. O'BRIEN. My own account; no, sir.

Mr. GRAY. You said that you traded for the Meehan firm account. You mean for M. J. Meehan & Co.?

Mr. O'BRIEN. Yes, the general account.

Mr. GRAY. Then M. J. Meehan & Co. as a brokerage firm and a member of the stock exchange have for themselves taken a position in Radio, long or short?

Mr. O'BRIEN. At times; yes, sir.

Mr. GRAY. At times.

Senator BROOKHART. Did you trade any for your wife?

Mr. O'BRIEN. I beg your pardon?

Senator BROOKHART. Did you trade any for your wife?

Mr. O'BRIEN. Yes, my wife has an account, very inactive account. I don't know whether she had any Radio or not. It does not amount to anything. It is a very small account.

Senator BROOKHART. And for the children, too?

Senator COUZENS. Just a minute; I would like to get Mr. Gray to carry that out.

Mr. GRAY. I wanted to, Senator. In other words, as a specialist and as a member of the firm of M. J. Meehan & Co. you have bought and sold Radio stock for that firm?

Mr. O'BRIEN. Yes, sir.

Mr. GRAY. In other words, M. J. Meehan & Co. have invested the money of the brokerage firm in the purchase of Radio stock?

Mr. O'BRIEN. Not the money of the brokerage firm.

Mr. GRAY. Whose money?

Mr. O'BRIEN. Our own money.

Mr. GRAY. Its customers?

Mr. O'BRIEN. No; our capital.

Mr. GRAY. Your capital, which belongs to the firm?

Mr. O'BRIEN. Yes, sir; part of it. Yes, sir. I misunderstood you.

Mr. GRAY. All right. M. J. Meehan & Co. have as a firm also taken a short position in Radio and sold short, have they not?

Mr. O'BRIEN. I don't doubt it, from time to time.

Mr. GRAY. Don't you know?

Mr. O'BRIEN. Well, I would say they have, but I can not remember any specific cases. Generally a specialist might be long to-day and short to-morrow.

Mr. GRAY. Yes, and M. J. Meehan & Co., with respect to Radio stock and while you were acting as a specialist, has at varying times taken either a long or a short position?

Mr. O'BRIEN. Yes, sir; I would say that.

Mr. GRAY. Do you know the position of M. J. Meehan & Co. in Radio to-day?

Mr. O'BRIEN. I should say it is even, one or two hundred shares.

Mr. GRAY. Very even?

Mr. O'BRIEN. I should say so. I don't know. I have not been in communication with the office.

Mr. GRAY. Has there been during the last year or year and a half a very voluminous or very great short position in Radio held by the firm of M. J. Meehan & Co.?

Mr. O'BRIEN. I don't recall distinctly any big positions in the last year or year and a half, but there may have been.

Mr. GRAY. We have not been able to get into this and investigate it.

Mr. O'BRIEN. The volume of trading in radio has been very light in the last year or year and a half, so I would not make a very positive statement.

Senator COUZENS. While you were on the floor keeping this book did you ever get any orders from the office to sell long or short radio stock?

Mr. O'BRIEN. You mean now, Senator? Or——

Senator COUZENS. Oh, any time.

Mr. O'BRIEN. Why, yes; we get orders quite frequently from the office.

Senator COUZENS. And so when you are getting orders from Meehan & Co. they also have information as to what this book shows?

Mr. O'BRIEN. No, sir. You mean our office in general would have that information?

Senator COUZENS. You do; yes.

Mr. O'BRIEN. I do; yes.

Senator COUZENS. Well, you are part of the office.

Mr. GRAY. Now, then, unless there are some other questions, I want to direct your attention to this pool again. You know there was such a pool in the office as this New Radio pool?

Mr. O'BRIEN. I knew after it had been formed, the syndicate had been formed.

Mr. GRAY. Yes; and you knew it had operated from what date to what date?

Mr. O'BRIEN. I heard—I should say I did at the time, but I am not familiar with the date.

Mr. GRAY. So that you knew that your orders were coming from the firm of M. J. Meehan & Co. to buy and sell Radio stock during that week between March 13 and March 19, 1929, and from the great volume that it was the operations of this pool, did you not?

Mr. O'BRIEN. No, sir. I would not know that, because the customers of Meehan's had always done a very big business in Radio. It might have been anybody.

Mr. GRAY. When you left your floor you invariably, I suppose, from day to day, had consultations over various matters with different members of your firm?

Mr. O'BRIEN. No.

Mr. GRAY. You never did?

Mr. O'BRIEN. Very, very rarely. And none that I can remember. as a matter of fact.

Mr. GRAY. Ever go to your place of business?

Mr. O'BRIEN. Well, as I described before, to my section of the place of business, and how we worked to straighten out on the floor.

Mr. GRAY. Mr. O'Brien, I want to know whether you say to this committee that M. J. Meehan & Co., of which you were a member, which firm was transacting the business of this pool in stock in which you were a specialist—do you mean to tell this committee that during that entire week you and the other members of the firm who may have been placing the buying and selling orders never consulted; they never asked you anything about the condition of your book from day to day or during any day, and that you never told them anything at all?

Mr. O'BRIEN. Well, as far as I can recall nobody asked for the condition of the book.

Mr. GRAY. Well, if they did not ask, did you give it to them?

Mr. O'BRIEN. No; I did not.

Mr. GRAY. Now let me ask you something: Is it not a fact that in the execution of the orders for this pool on the floor of the stock exchange that matter was simply left to your discretion and you were the one that handled it?

Mr. O'BRIEN. It is not the fact at all.

Mr. GRAY. Who issued the orders in this firm for the selling and the buying of this Radio stock?

Mr. O'BRIEN. I do not know that anyone did.

Mr. GRAY. Well, somebody has to say when you are going to buy it and when you are going to sell it, don't they?

Mr. O'BRIEN. Somebody must have given the order. It originated some place.

Mr. GRAY. Who was it?

Mr. O'BRIEN. I should have imagined that it originated with the managers of the syndicate, so far as I know.

Mr. GRAY. Well, Mr. Bragg says that he was in Florida.

Mr. O'BRIEN. Well, you see, I can not answer, because I can only answer to what you asked me about on the floor. My general knowledge is only concerning specializing and what takes place there. I really don't know anything about running an office, for instance.

Mr. GRAY. Who gave the orders to clean up this pool and bring it up on an even basis?

Mr. O'BRIEN. Well, if I could tell you that, I probably would be able to answer your other question.

MR. GRAY. Who is the man in your firm that can tell us who handled and gave you orders to buy and sell this Radio stock—who is it—in 1929?

MR. O'BRIEN. In our firm?

MR. GRAY. Yes.

MR. O'BRIEN. Well, I do not believe that anybody in our firm did it. The firm was never a member of the syndicate or managers for a syndicate to my knowledge.

MR. GRAY. Oh, the firm was the one that originated the syndicate. Why tell me that? They got a 50 per cent of the managers' cut for doing whatever they did do, and we are trying to find out who it was that handled this syndicate. Nobody seems to know.

MR. O'BRIEN. I don't, sir. I was not in on any conversation regarding a pool, never have been.

MR. GRAY. I don't know whether you have clearly answered my other question. Are you trying to create the impression with this committee that, though you were the member of the firm of M. J. Meehan & Co. and had inside knowledge of what was on the specialist's book, that your firm was specializing in, that they did not use that information in any manner, shape, or form in the buying and selling of those stocks?

MR. O'BRIEN. I do not think that they had any use for it; no.

MR. GRAY. Did they have the information?

MR. O'BRIEN. Not to my knowledge they never got any information about the book. They didn't get it from me.

MR. GRAY. I suppose your answer that you knew nothing about the office matters would be the answer that you would make to me if I asked you about who got this \$92,000, who these people were and why it was paid to them and they were not participators in the pool; is that right?

MR. O'BRIEN. That is right. I would have to answer that way.

MR. GRAY. And you would have to answer the same way if I asked you about these various transactions that appear to be wash sales?

MR. O'BRIEN. I don't know anything about that.

MR. GRAY. You don't know anything about that?

MR. O'BRIEN. I would not come in contact with any office work at all.

MR. GRAY. All right. I will say to the committee that we are still working on this and we will find out where those checks went and why they went and we will see the checks and see who indorsed them, and we will know all about it before we get through, but this is as far as we can get in this matter at the moment. That ends all I want to present on the Radio pool, and I will take up something else whenever the committee is ready.

Senator WALCOTT. When will the next meeting be, Mr. Chairman?

MR. GRAY. I have enough to keep you busy all day to-morrow and all day Saturday?

The CHAIRMAN. I think we can continue this afternoon, and I just told Senator Couzens about it.

Senator COUZENS. Do you want to go on this afternoon?

MR. GRAY. I would like very much to. In other words, I have a number of witnesses I brought here on some other transactions.

The CHAIRMAN. I do not see how so many Senators can be so far away from the Senate Chamber, so we will meet in the Interstate Commerce Committee room in the Capitol right off the Senate gallery and, in case of a roll call, we can go down and vote and come back for the hearing.

Senator COUZENS. There will be no room except for the reporters.

The CHAIRMAN. Except standing room. That is unfortunate, but it is the only place that is available. We will be there at 3 o'clock.

(Whereupon, at 12.50 o'clock p. m., the committee recessed, to meet in the Interstate Commerce Committee room in the Capitol, at 3 o'clock p. m. of the same day.)

#### AFTER RECESS

The committee resumed at 3 o'clock p. m., at the expiration of the recess, in the hearing room of the Committee on Interstate Commerce in the Capitol, Senator Norbeck (chairman) presiding.

The CHAIRMAN. The committee will resume. What witness will you call, Mr. Gray?

Mr. GRAY. I want Mr. McCONNACHIE to resume the stand, and I see he is sitting at the table. But I wish to place something on the record.

#### TESTIMONY RESUMED OF JAMES F. McCONNACHIE, MEMBER OF THE FIRM OF M. J. MEEHAN & CO., NEW YORK CITY

Mr. GRAY. Mr. Chairman, I want to place upon the record, to conclude, one or two things in regard to radio: The fact that the records show that there was outstanding at the time this pool in 1929 was operating, and in which they operated in approximately 1,500,000 shares, a total issue of 13,130,690 shares of stock. It is impossible to determine just what the floating stock was, but they dealt in the period of one week in approximately 12 per cent of the entire outstanding issue of Radio Corporation of America stock.

Now, when I say they dealt in 12 per cent I am taking the figure that they bought, or approximately the figure that they sold; but they bought and sold altogether some 2,900,000 shares of stock of the Radio Corporation of America, or approximately or close to 30 per cent of the entire outstanding issue of stock during that one week's operations.

Now, I want further to put upon the record the substance of some articles that were published, and I will later have the articles themselves, but I have been unable to get them in the limited time at my command; I mean the clippings themselves, and will then put them upon the record, those articles having appeared during the time the pool was operating.

First, on March 2, 1929, immediately after the pool was formed, there appeared in the Wall Street Journal an earnings statement of the Radio Corporation of America, showing that their earnings during 1929 and up to that date were \$21,128,420, as compared to \$10,394,415 in 1927. There is no statement here as to 1928. But this shows a claim of an equivalent to \$15.98 on the common shares as compared with \$6.15 in 1927, after reserves were withdrawn.

On March 9, 1929, in the Wall Street Journal appeared an article:

Radio Corporation of America to extend activity abroad. Corporation is financially better off than ever before in its history. Current assets at end of 1928 total \$55,577,250 and current liabilities \$16,073,015, a ratio of  $3\frac{1}{2}$  to 1.

The CHAIRMAN. In other words, a net of around \$40,000,000.

Mr. GRAY. That was on the matter of current liabilities and assets only, and not on the matter of its capitalization.

The CHAIRMAN. All right.

Mr. GRAY. On March 11, 1929, in the Wall Street Journal under the caption Abreast of the Market, the following appeared:

Radio.—Radio shares were the sensation of the market last week. The return of an important interest, which sponsored Radio for some time was the signal for a resumption of activity in the issues. What profit taking came into the market was easily absorbed and the spectacular advances attracted the attention not only of traders, but of outsiders, who were looking for a stock indicating a decided upward trend. Radio's business has been expanding and many developments are pending. The new shares, because of their low selling price, are naturally the most attractive to the public.

On March 12, 1929, under the caption Abrupt Changes and in a story reporting credit control rumors, the following appeared, and I am quoting it:

Radio Corporation issues again took the lead on the up-side, rising to fresh record levels on the activities of big operators, who have sponsored Radio's market for the last several weeks.

On March 16, 1929, under the caption Radio Royalties Nearly Doubled appears a long analysis of the organization and finances of the Radio Corporation of America, in which royalties are set forth as an important factor in the corporation's record showing for 1928. And it says there is further bullish mention of communications, plans, and strides forward in the amusement field.

On March 21, 1929, under the caption Broad Street Gossip the following appeared, and I quote it:

It is said that the one million share Radio pool has been terminated with a net profit of five points to the underwriters.

And that you will note is approximately correct.

On March 22, 1929, in the Wall Street Journal, under the caption "Market comment," the following appeared:

The large pool in Radio finished letting out its line Tuesday—

And that was on March 19, which was absolutely correct—

and, for the time being at least, has turned its attention to the copper group with most of its buying in Anaconda.

On March 28, 1929, under the caption "Abreast of the market," appeared the following:

Interests who had been prominent in the advance of Radio only a few weeks ago when the stock rose to a high about 109 were advising their friends to consider repurchasing around 85.

Just as the evidence I presented this morning indicated that the stock had dropped to  $87\frac{3}{4}$  a few days before that.

When Radio went below that figure on Tuesday—

and I did not come down to that date—

it encountered buying orders which started the recovery in the issue. Market students maintained that the leading interests dominating the movements in



the stock were buying actively around Tuesday's low point. A substantial short interest in the stock has been covering.

And I will say that we are working now on another pool that operated immediately after that, and that put it back from 95 to 113. I am not ready to present that to the committee now, but it will be finished a little later and furnished to the committee.

Senator BROOKHART. Mr. McConnachie, who was T. Clark, who was in this pool?

Mr. McCONNACHIE. I have no knowledge of any of the participants of the pool because I was not with M. J. Meehan & Co. at that time.

Senator BROOKHART. Will the other witness be here, Mr. Gray?

Mr. GRAY. The witness O'Brien was with them, but I wanted to keep Mr. McConnachie for another purpose, and before the noon recess I asked if any member of the committee wanted to ask him any more questions, and they did not. So I relieved Mr. O'Brien. Has he gone, Mr. McConnachie?

Mr. McCONNACHIE. Yes.

Senator BROOKHART. Who was the other witness?

Mr. GRAY. Mr. O'Brien.

Senator BROOKHART. The man who managed the pool while in Florida?

Mr. GRAY. No; that was Tom Bragg.

Senator BROOKHART. Is he here?

Mr. GRAY. No.

Mr. McCONNACHIE. We could probably reach Mr. O'Brien in time to have him here this afternoon if you want him.

Senator BLAINE. Mr. McConnachie, when did you leave the Meehan firm?

Mr. McCONNACHIE. I am still with the Meehan firm.

Senator BLAINE. Were you with them in 1930?

Mr. McCONNACHIE. I was with them in June of 1930.

Senator BLAINE. And you were with them throughout 1931?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. Did you participate in any transactions in connection with R-K-O stock?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. None whatever?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. You have no personal knowledge of those transactions?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. Do you have any personal knowledge of the reorganization of R-K-O?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. Who would have personal knowledge of that in the firm of M. J. Meehan & Co.?

Mr. McCONNACHIE. I do not know that anyone in the Meehan firm would have personal knowledge of the R-K-O Corporation.

Senator BLAINE. The Meehan firm had a specialist in R-K-O stock, did it not?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. In the fall of 1930 and spring of 1931?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. Who was that specialist?

Mr. McCONNACHIE. Mr. George Garlick.

Senator BLAINE. And he would have personal knowledge of stock transactions relating to R-K-O in 1931?

Mr. McCONNACHIE. Yes, sir.

Senator BLAINE. Were you informed that R-K-O was going into a form of reorganization?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. In the fall of 1931?

Mr. McCONNACHIE. No, sir.

Senator BLAINE. But Mr. Garlick would know?

Mr. McCONNACHIE. I do not know that he would know any more in reference to reorganization than I would. But he ran the book in R-K-O.

Senator BLAINE. Would you give us his full name and business address as well as home address?

Mr. McCONNACHIE. I do not know his home address?

Senator BLAINE. Well, give us his business address.

Mr. McCONNACHIE. No. 30 Broad Street, New York City.

Senator BLAINE. He is a resident of New York City?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. I want to say to the committee that, having presented the pool in Radio that operated on the long side of the market, I desire to develop an operation on the short side of the market that Mr. McConnachie may be able to give us some information about, and that I can present certain records.

Mr. McCONNACHIE. Mr. Counsel, can I add something to my statement of a minute ago: I do know this in reference to R-K-O, Radio-Keith-Orpheum: Mrs. Mehan held 20,000 shares of K-L-O preferred, Keith-Albee-Orpheum preferred stock, which cost her in excess of \$2,000,000. This stock was convertible three for one into R-K-O common stock. When the R-K-O Corporation, Radio-Keith-Orpheum Corporation, was organized it took over the Keith-Albee Co., which in turn was a consolidation of the Keith-Albee-Orpheum Circuit.

Keith-Albee took over the Orpheum Circuit, and I believe that sometime during last year Mrs. Meehan sold the equivalent of the common stock that she could convert the K-L-O preferred stock into. In other words, she held 20,000 shares of K-L-O preferred, and she had the privilege to convert those 20,000 shares into 60,000 shares of R-K-O common stock. There being no market, or at least a very dull market, in the preferred stock, I believe she sold 60,000 shares of R-K-O common stock against her 20,000 shares of K-L-O preferred.

Senator BLAINE. Was that before November of 1931?

Mr. McCONNACHIE. I could not tell you what date the sale was made.

Senator BLAINE. The company went through the process of reorganization in November and December of 1931, I understand. Do you recall that?

Mr. McCONNACHIE. I could not tell you the date. I should like to add that those 20,000 shares of K-L-O preferred, and she still holds it to-day, cost Mrs. Meehan over \$2,000,000, while I think the present price is something like \$8 a share.

Senator TOWNSEND. Did you say she sold 60,000 shares against that?

Mr. McCONNACHIE. She did, but later on she bought it back. She still holds 20,000 shares of K-L-O preferred, and at to-day's prices that shows a loss of about \$1,800,000.

Mr. GRAY. You have injected Mrs. Meehan into the picture.

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Isn't it a fact that while this Radio pool was operating, in March of 1929, extensive operations were carried on in the name of Mrs. Meehan individually in Radio besides?

Mr. McCONNACHIE. I am not familiar with that.

Mr. GRAY. You do not know that?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. And, having told this committee that in addition to the profits she made out of the pool which you were relating as an offset to certain losses before the recess, that she made quite a few millions of dollars in her individual account, or either she or Mr. Meehan dealing in her name, at the same time the Radio pool was operating. You do not know that?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. I say to the committee that we are investigating those records at the present time and will be prepared to prove that Mrs. Meehan made as much as the syndicate did. I can not do it to-day, inasmuch as we were not able to get through with our investigation.

Now, Mr. McConnachie, I asked you before recess whether or not you knew about the account No. 815 that belonged to Bradford Ellsworth and Joseph E. Higgins. And I think you told me you knew of such an account.

Mr. McCONNACHIE. I think I told you, Mr. Gray, that I did not know of such an account.

Mr. GRAY. But you did tell me, however, didn't you, that you thought there was in your office an option to purchase Electric Auto-Lite Co. stock. I am referring now to March of 1931.

Mr. McCONNACHIE. As I recall I made the statement that I did know there was an interest of some kind in the office in reference to Auto-Lite.

Mr. GRAY. All right. And you will furnish to the accountants of the committee who will visit you in connection with this matter, all the data you have with respect to that option?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Do you know anything about the price at which the option was taken?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Now I want to ask you about the general practice in connection with options that are given to traders or others on the market. Isn't it a fact that where a trader has an option to buy a certain amount of stock at a fixed price, and within, of course, a certain time limitation, that the first thing he does, if the price is approximately that at which he has his option, to take a short position?

Mr. McCONNACHIE. I have never conducted such a market operation as you term it, and I have never been so intimately associated with others conducting one that I know their methods.

Mr. GRAY. All right. You can not answer that question?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. I will show to the committee by another witness whom I will call in and their transaction, that when a man gets an option on stock, to buy a certain number of shares, say, at 70, and the market is 70 or a little above, he will immediately go out and take a short position by selling a large number of shares short, his intention being that if the market goes up he can furnish the stock, of course, by covering his option, while if the market goes down he covers by covering his short sale and he does not have to bother about the option. So that when he trades in that way he can not lose.

And I suppose, Mr. McConnachie, you will say you do not know anything about transactions in Electric Auto-Lite.

Mr. McCONNACHIE. I do so say.

Mr. GRAY. I am now going to submit to the committee reporter a statement which I will verify by additional evidence at a later time if the committee wants it, whereby we will be able to show that there was an option which the Meehan office had to buy a certain quantity of stock at a certain price. I can not give the committee those figures because this came to me last midnight, but I can show in this connection, in this account No. 815, that Mr. Joseph E. Higgins and Mr. Bradford Ellsworth whom you have heard as one of the managers of the Radio pool, started to sell on March 10, 1931, this stock short, that their sales consisted entirely of short sales, running from March 10 to April 27, which reached the date when they finished finally covering their sales, when they dealt in approximately 94,000 shares, and that they made a profit in that pool of \$35,500; that they distributed out of those gross profits the sum of \$7,102.44 to Collins-Norton Co., of Toledo, Ohio, and to Stewart McNair they gave a check for \$3,551.22, leaving a net profit of \$25,170.88. The details beyond that I can not give the committee at the present time, but our accountants are working on it to-day.

But that is a clear illustration of an option that was taken, which when they took their short position instead of the stock going up, thus giving them an opportunity to exercise their option and make a profit in that way, they abandoned entirely the option, and having taken a short position against the option, covered it by buying as the market went down because at the time when they started to sell short the market was 70 $\frac{5}{8}$ , on March 10, and when they made the final covering on April 7 the market was 52 $\frac{3}{4}$ .

(The paper handed to the committee reporter by Mr. Gray, is here made a part of the record, as follows:)

GEORGE K. WATSON & Co.—OFFICE MEMORANDUM

File ———.

Date: May 18, 1932.

From: Mr. L. H. Sherbacow.

To: Mr. William Gray.

Subject matter. In re market operation in Electric Auto-Lite Co.

A market operation in Electric Auto-Lite Co. was begun on March 10, 1931, by Bradford Ellsworth operating through the firm of M. J. Meehan & Co. The account through which this operation was run was an account No. 815, it being a joint account of Bradford Ellsworth and Jos. E. Higgins.

It is my belief that this operation was predicated in an option to purchase a block of stock given by the controlling interest of Electric Auto-Lite Co. to Bradford Ellsworth at prices below the then market, but as Mr. Ellsworth

is reported to be in Canada at this time, it has been impossible to confirm this belief.

The following schedule discloses trades in the stock. At beginning of operation, March 10, 1931, the stock was selling at  $71\frac{1}{2}$  per share and at completion, the stock sold at 49 per share, showing a depreciation in price of \$22.50 per share, within 45 days after operations were begun. Complete data concerning this operation was not available.

*Transactions in stock*

Date	Purchases	Sales
1931		
Mar. 10	23,700 shares, at $70\frac{5}{8}$ .....	36,700 shares at $71\frac{1}{2}$ .
11	21,900 shares, at 72.....	25,500 shares, at $73\frac{1}{2}$ .
11	1,100 shares, at $72\frac{3}{4}$ .....	
12	6,100 shares, at $72\frac{1}{2}$ .....	6,600 shares, at $72\frac{3}{4}$ .
13	3,300 shares, at 72.....	3,600 shares, at $72\frac{1}{2}$ .
16	Dividend on 16,300 Elo (short), 3-13; debit, \$24,450.	
16	10,100 shares, at $67\frac{3}{4}$ to 71.....	1,900 shares, at 69.
17	4,000 shares at $71\frac{1}{2}$ .....	5,300 shares, at $71\frac{3}{4}$ .
18	8,200 shares, at $71\frac{3}{4}$ .....	3,100 shares, at $72\frac{1}{2}$ .
19	600 shares, at $71\frac{1}{2}$ .....	2,400 shares, at 72.
20	2,500 shares at $72\frac{1}{2}$ .....	3,400 shares, at $72\frac{3}{4}$ .
23	1,600 shares at $72\frac{3}{4}$ .....	3,600 shares, at $72\frac{1}{2}$ .
25	200 shares, at 70.....	200 shares, at 70.
30	2,600 shares, at 69.....	
31	1,200 shares, at $68\frac{1}{2}$ .....	
	On Mar. 31, 6,400 net short position.....	
Apr. 15	900, at $63\frac{1}{2}$ .....	
16	900, at 62.....	
17	1,600 at 62.....	
20	2,000, at $58\frac{1}{2}$ .....	
21	500, at $52\frac{3}{4}$ .....	
27	1,000 at $52\frac{3}{4}$ .....	600, at 49.

Total shares purchased, 94,000; total sales, 92,900.

GENERAL COMMENTS

A profit of \$35,000 was sustained in this operation. On the 12th of May, 1931, a check was drawn to the order of Collins-Norton Co. of Toledo, Ohio, amounting to \$7,102.44. On May 24 a check was drawn to the order of Stewart McNair amounting to \$3,551.22, leaving a net profit of \$25,170.88. In examining the account of this operation, I found that there was no money credit in the account at the beginning of the operation.

Mr. McCONNACHIE. May I ask the question: Was that an option of Bradford Ellsworth and Joseph Higgins or an option of M. J. Meehan & Co.?

Mr. GRAY. Either an option of Meehan & Co. which Bradford & Higgins had an interest in, or an option directly to Higgins. We started to work on this yesterday, and this is accurate as far as I have given it to you, and it only came to me last midnight.

Now, unless members of the committee want to ask Mr. McConnachie anything more I am through with him.

Senator GLASS. Mr. McConnachie, for what average period are stocks dealt in on the New York Stock Exchange held?

Mr. McCONNACHIE. I do not think there is an average.

Senator GLASS. I had a chart made a little more than two years ago by an expert in actuarial matters which indicated that 15 years ago the average period was 67 days, but that at the time when the chart was made, or rather for the previous year, it had been reduced to 22 days. What would be the effect of putting a tax on transfers of stocks on the stock exchange which when sold had not been held by the seller at least 60 days?

Mr. McCONNACHIE. What would be the justification for such an act?

Senator GLASS. What would be the effect of it? How much revenue would it yield, a tax of that sort?

Mr. McCONNACHIE. I could not tell you, sir, in dollars and cents, but I do not think there is any question but what it would have the effect of slowing up the business of the exchange.

Senator GLASS. Some of us have thought the only practical way of distinguishing a stock investment from stock gambling would be to introduce the time element. People, in view of at least of some of us, do not invest for a minute, as one witness to-day indicated was frequently done in making sales and transfers. You would not say, I imagine, that a man invest his money for a day, does he?

Mr. McCONNACHIE. No, sir.

Senator GLASS. Nor for a week?

Mr. McCONNACHIE. No, sir.

Senator GLASS. Nor scarcely for a month?

Mr. McCONNACHIE. No, sir. But the effect of that, Senator Glass, if you will permit me to say so, would be to penalize the man for changing his position when he discovers that he has made a mistake.

Senator GLASS. Oh, yes; but that would be a very rare transaction when you take the whole volume of transactions on the stock exchange into consideration. And it would put several billions of dollars into the Federal Treasury, unless stockbrokers should desist from investing for an hour or a day or a week, would it not?

Mr. McCONNACHIE. Senator, I would say that any man who bought stocks within the past two and a half years made a mistake to hold those stocks for one day rather than 30 days in the light of the depreciation in security values during the past two and a half years.

Senator GLASS. Yes; in the light of the formation of pools to send stocks skyrocketing or to send them to the depths. But that was a very exceptional period, was it not?

Mr. McCONNACHIE. Yes, sir.

Senator GLASS. I am talking about the ordinary legitimate transactions on the stock exchange, explained by Mr. Whitney to be the great investment market. If they continued in the same volume as prevailed in 1928-29 it would pretty soon enrich this Government, wouldn't it? We would not have to levy taxes on anything else, would we?

Mr. McCONNACHIE. Well, that depends upon the amount of the tax. But if such a tax were levied along reasonable lines I do not believe it would produce any substantial revenue. And when I say "substantial revenue" I mean many millions of dollars.

Mr. GRAY. Mr. McConnachie, if I may be permitted to ask a question right there, the most of the transactions which took place on the stock exchange during 1928-29 were transactions that were closed out within extremely short periods of time, comparatively speaking, a matter of anything from 5 minutes to 5 or 6 days; isn't that true?

Mr. McCONNACHIE. I think that would be very unlikely.

Mr. GRAY. You think that was unlikely in 1928-29?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. How long do you think, if you can give us any idea of it as an average, was the average time that purchasers of stocks during 1928-29—and you can also answer that with respect of to-day, if you would like to—carried stocks before selling?

Mr. McCONNACHIE. I have never seen such a compilation made.

Mr. GRAY. I have not either, and I will be perfectly frank with you about that.

Senator GLASS. Well, I have had a compilation made as I indicated a moment ago, and I am asking this question because, as will be noted under S. 84, this committee is directed to report to the Senate the desirability of the Government exercising its taxing power with respect to such transfers. That would at least transform the stock exchange from a feverish gambling institution into approximately an investment institution, wouldn't it, at least if the tax were high enough?

Mr. McCONNACHIE. It would unquestionably slow up speculation if you made the tax excessive.

Senator GLASS. Well, if you made it reasonable according to my point of view, and we differ as to the reasonableness of such a tax, but if you would put a pretty stiff tax on it, it would transform the stock exchange into a public market, a public investment market, would it not?

Mr. McCONNACHIE. Anything that you would do to make speculation more expensive would necessarily slow up transactions on the stock exchange.

Senator FLETCHER. What proportion of the business of the stock exchange is of a speculative character and what proportion is really investment marketing of securities?

Mr. McCONNACHIE. I could not say.

Senator FLETCHER. Is the larger proportion of the business that of a speculative character?

Mr. McCONNACHIE. I have never seen any such figures, and I have never attempted to make an estimate, and have never known anyone else to try to do it. I think it would be very difficult if one were to try to do it. They would have to inquire into each transaction in every broker's office.

Senator FLETCHER. In a general way what were your duties as special agent of the Treasury Department?

Mr. McCONNACHIE. To make investigations into the personnel of various Treasury offices throughout the country, to reorganize the service if reorganization was deemed necessary and advisable, and to take charge of a force of men who had to do with the prevention of frauds against the revenue.

Senator GLASS. You think it would not be advisable to attempt that sort of definition or distinction between stock gambling and stock investment?

Mr. McCONNACHIE. I do not think you could very well, Senator, without injuring the investor whom you are attempting to safeguard.

Senator GLASS. My view is that it would protect the investor but would injure the gambler.

Mr. McCONNACHIE. Well, you will note that whenever there is a slow market it has a tendency to move lower, and by affecting prices of securities disastrously to the holder I do not see how you can improve the position of the investor.

Senator GLASS. But a market that sanctions pools such as the one revealed at our hearing this morning means that prices may be lowered or elevated, but in either event it is a fictitious market, is it not?

Mr. McCONNACHIE. I believe that when syndicates are organized they are organized because the members believe that the security is selling for less than its intrinsic value and that a profit can be made through its purchase and sale at values which they feel more commensurate with its worth. You have heard to-day of one syndicate where a profit of some millions of dollars has been derived. But you probably will hear in the course of this investigation of many syndicates where losses of a great many more millions of dollars have been the result of syndicate operations. I have given you a few this morning.

Senator GLASS. Well, that means that syndicates gamble on both sides of the market, doesn't it?

Mr. McCONNACHIE. I have never known or heard of a syndicate being formed to sell stocks short.

Mr. GRAY. I will call Senator Glass's attention to the fact that the recent agreement in Radio authorized them to sell the stock either long or short.

Senator GLASS. And it so happened that they sold it long.

Mr. GRAY. They could handle it better that way.

Mr. McCONNACHIE. But, pardon me, it was a buying syndicate. It was not a short syndicate. It was not a syndicate organized for the purpose of selling the stock short.

Senator GLASS. Well, it was organized for the purpose of advancing the market to a fictitious point, wasn't it?

Mr. McCONNACHIE. No, sir; I would not say so, although as I have previously stated, I am not familiar with that stock. But others who participated in the syndicate, as well as millions of people throughout the United States, had great ideas as to the value of the stock of the Radio Corporation of America. I have heard intelligent people claim that the day would come when power would be derived from air waves, which could be used in the place of power houses. And they had imaginary ideas as to the value of radio stock. But even those who participated in the syndicate, I believe, felt that radio stock was selling for very much less than what it was worth.

Senator GLASS. People who organize syndicates are at liberty individually to buy stocks that they think are going to advance, that they think should advance, but why organize a syndicate if it is not to combine the resources of various members of the syndicate in order to affect the market fictitiously? They do not organize a syndicate based upon the earning capacity of the corporations represented by the stocks in which they deal. They organize a syndicate in order that it may be powerful enough to affect the market, do they not?

Mr. McCONNACHIE. Senator Glass, I do not believe that they organize a buying syndicate unless they have complete confidence that the stock which the syndicate is organized to purchase is worth a great deal more than what they can sell it for.

Senator GLASS. What degree of confidence has a syndicate in a stock when it is buying its own stock and selling at the same time? What is the meaning of that sort of action?



Mr. McCONNACHIE. You will have to ask that question of some of those syndicate managers. I can not answer that.

Senator GLASS. I think I could, and I never was within a thousand miles of a syndicate in my life. [Laughter.]

Senator FLETCHER. Does that radio stock pay any dividends?

Mr. McCONNACHIE. No, sir.

Senator FLETCHER. Do you know when, if ever, it has paid a dividend?

Mr. McCONNACHIE. I do not think it has ever paid a dividend. But if you will remember the earnings report as Mr. Gray cited, it shows something like \$16 a share, and that \$16 a share was the earnings per share going up from practically nothing. That is, the earnings previous to that time had been very small. So if it could earn \$16 a share that indicated its future possibilities.

Mr. GRAY. No; I did not state that. What I said was this: I read extracts from what newspaper articles set forth. I did not say anything as a statement of fact myself, nor did I submit it as a fact. I submitted it as newspaper puffing while the pool was on.

Mr. McCONNACHIE. Well, I believe that is a fact.

The CHAIRMAN. How old was the Radio Corporation of America at the time?

Mr. McCONNACHIE. What was that?

The CHAIRMAN. How many years had this corporation operated prior to the time when you claim they had earnings of \$16 per share?

Mr. McCONNACHIE. Oh, I think the Radio Corporation of America has been in existence for over 10 years.

The CHAIRMAN. And they have not paid out anything substantially by way of dividends, have they?

Mr. McCONNACHIE. I do not think they have ever paid a dividend on the common stock.

The CHAIRMAN. Even if this report were true of their earnings, if you were to spread it over a 10-year period it would be  $1\frac{1}{2}$  per cent a year during the time they have been operating.

Mr. McCONNACHIE. If that had been their total earnings; yes. But I believe they had earned a small amount annually, but a very small amount as compared with the earnings at that particular time.

The CHAIRMAN. But they had gone on for 10 years without paying any dividend?

Mr. McCONNACHIE. Yes, sir.

The CHAIRMAN. And they started out without any physical property, didn't they?

Mr. McCONNACHIE. Well, I have never examined their balance sheet.

The CHAIRMAN. I think that was the evidence given here this morning.

Mr. McCONNACHIE. I have never examined the balance sheet of the Radio Corporation of America and could not state about their financial condition.

The CHAIRMAN. You do not know where their earnings, if any, came from?

Mr. McCONNACHIE. No, sir.

The CHAIRMAN. They did not come from dealing in stocks, did they?

Mr. McCONNACHIE. I do not believe that any of the Radio Corporation's earnings came from stocks.

The CHAIRMAN. Did they conduct any business?

Mr. McCONNACHIE. Well, they owned a communications system, and radio broadcasting. They owned the Marconi wireless system. Then they acquired the Victor Corporation.

The CHAIRMAN. Did they own them or did they have an option on them or a contract for them?

Mr. McCONNACHIE. No, sir. I understand they owned the radio broadcasting and the Marconi wireless system.

The CHAIRMAN. Had they paid for them?

Mr. McCONNACHIE. Yes, sir.

The CHAIRMAN. Then the testimony that we had this morning to the effect that they did not have much in the way of physical properties was wrong.

Mr. McCONNACHIE. Sir?

The CHAIRMAN. The testimony that we had this morning, then, was wrong?

Mr. McCONNACHIE. I did not hear that part of the testimony given this morning.

The CHAIRMAN. But the total value of the stock of the Radio Corporation at one time exceeded a billion dollars in market value, didn't it?

Mr. McCONNACHIE. Well, if it was selling above \$100 a share and if there were a million shares——

Senator TOWNSEND (interposing). It was 13,000,000 shares.

Mr. McCONNACHIE. Well, that would make it \$1,300,000,000.

The CHAIRMAN. What do you claim the physical properties of the Radio Corporation of America to be in the matter of value?

Mr. McCONNACHIE. I have no idea. I have never examined the balance sheet of the Radio Corporation of America.

The CHAIRMAN. Do you know where we can get that information?

Mr. McCONNACHIE. Yes, sir.

The CHAIRMAN. From the man who took the ship last night?

Mr. McCONNACHIE. Well, Mr. Chairman, since you make that statement, I should like to say that on last Saturday, at Mr. Gray's request, I called to see him at his office, and he told me that he should like to have Mr. Meehan as a witness before this committee to-day. I told him that I would see Mr. Meehan, and I not only saw Mr. Meehan, but I saw the three physicians attending him, and all three physicians were unanimous in their opinion that Mr. Meehan was in no physical condition to be present at to-day's hearing.

The CHAIRMAN. It might have been pretty hard on a healthy man, I judge.

Mr. McCONNACHIE. Now, I will say that Mr. Gray has seen Mr. Meehan. He has talked to him at great length, and he is almost in as good a position as a physician to pass upon Mr. Meehan's physical condition. I again called on Mr. Gray on Monday and told him what those doctors had advised me in reference to Mr. Meehan's health, and Mr. Gray was readily able to understand from the impression he had gained at his interview that the physicians' statements were 100 per cent correct. And Mr. Gray——

The CHAIRMAN (interposing). Well, now——

Mr. McCONNACHIE (continuing). Pardon me just for a moment. Mr. Gray then said that under the circumstances he would not call Mr. Meehan, would not insist upon his being present to-day.

The CHAIRMAN. But to-day we are told what nobody knows but this man and he has gone away. That is what we object to. Every member of this committee now knows that. And if the members of the committee had known it at the time, they would have wanted him to be present.

Mr. GRAY. The committee will understand that I released Mr. Meehan from being here to-day. While he was not subpoenaed I did know that he was sick, and I did tell Mr. McConnachie on Monday that I would not subpoena him to be here to-day. I did release him as to this appearance to-day although he had not been subpoenaed. But I did not say to him that I would not expect Mr. Meehan to be present on another day, at a subsequent meeting of the committee. Of course, I had no information that Mr. Meehan was going to Europe. Nothing of the kind was said to me. And not for a moment would I have said, although I had no official control of him because of the fact that he had not been subpoenaed, not for a moment would I have agreed nor did I agree that he should be released as to his presence before the committee at another time.

Senator GLASS. It is an unhappy circumstance that he should have gone to Europe the night before this committee convened.

Senator BLAINE. When does Mr. Meehan expect to return?

Senator GLASS. If Mr. Meehan had conferred with me on the subject I would have advised him to remain over for several days anyhow.

Mr. McCONNACHIE. And I am very sure that he would, in spite of his physical condition, had he known that he was desired, that his presence was desired. His condition is not good, and I do not think that he should be asked to attend.

Senator GLASS. I am not undertaking to suggest that Mr. Meehan's condition is good, though sometimes I have very little confidence in certificates from physicians. I have seen the fraudulent nature of some of them. But I think it was a very unhappy circumstance for Mr. Meehan that he should have left the night before this committee convened to resume its stock market inquiry.

Senator BLAINE. When is he expected to return?

Mr. McCONNACHIE. Well, the doctors ordered him away for a complete rest.

Senator BLAINE. For how long a time?

Mr. McCONNACHIE. They told him he should stay away for some months.

Senator BLAINE. And that would mean two months or possibly three months?

Mr. McCONNACHIE. I would say two months; yes, sir.

Senator GLASS. I have had physicians to order me to stay away from my duties as Senator for the last three months, but I did not stay away.

Mr. McCONNACHIE. Well, Mr. Senator, if you will permit me to say so, if Mr. Meehan were in good physical condition he would certainly be present here to-day, and nothing in the world could have prevented him from being present if he had known you gentlemen wanted him to be present.

Senator GLASS. I accept that in good faith, but I still hold that he made a mistake in going away under the circumstances.

Senator FLETCHER. I want to suggest that we get on with the hearing. We have disposed of the case of Mr. Meehan, and he is now out on the Atlantic Ocean. So, let us get along.

Mr. GRAY. Mr. McConnachie, you do not mean to say that Mr. Meehan, Mr. Braggs, Mr. Ellsworth, or any of the members of this syndicate made an investigation of the Radio Corporation of America prior to the time of going into this pool, do you? Please answer that without making a speech to the committee.

Mr. McCONNACHIE. Mr. Gray, you are asking me a question about happenings as of a time when I was not there.

Mr. GRAY. But you made the suggestion in the matter of pool participants that they always look into these things and know that the thing is a good thing and that they are going to make money. You do not suggest that these gentlemen looked into the Radio Corporation of America, that they investigated it?

Mr. McCONNACHIE. Yes, sir.

Mr. GRAY. Then did they know that the Radio Corporation was doing the amount of business in 1929, up to the point where they went into that pool, that practically up to that part and for the rest of the year they just made \$1.58 a share during 1929? Do you know that that is so?

Mr. McCONNACHIE. No, sir.

Mr. GRAY. Well, that is a fact from statistical records, and that they made 2 cents a share in 1930, and that they had a deficit of 34 cents a share in 1931. Do you know that to be so?

Mr. McCONNACHIE. No, sir; I do not.

Mr. GRAY. All right. Those are figures taken from the statistical records.

Mr. McCONNACHIE. Well, they could not know in 1929 what business Radio Corporation would do in 1930 or 1931.

Mr. GRAY. No. But your pool operated in March of 1929. Do you know what, if any, investigation was made with reference to the earnings for the first quarter of 1929?

Mr. McCONNACHIE. I do not, but I assume they would know.

Mr. GRAY. Well, we will pass it at that. That is all that I want to ask this witness.

The CHAIRMAN. I must now go down to the floor of the Senate in order to make a short speech, and I will ask Senator Brookhart to preside.

Mr. GRAY. Unless the members of the committee want to ask you some more questions you are through for the present, Mr. McConnachie, but you are not excused.

Mr. McCONNACHIE. Then I can go home.

Mr. GRAY. So far as I am concerned you are excused for the present, but you are not finally excused.

Senator BROOKHART (presiding). Who will you have next, Mr. Gray?

Mr. GRAY. I will call Mr. Weeks.

Senator BROOKHART. Mr. Weeks, you will please stand, hold up your right hand, and be sworn: You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, re-

garding the matter now under investigation by the committee, so help you God?

Mr. WEEKS. I do.

# **TESTIMONY OF JOHN L. WEEKS, MEMBER OF THE FIRM OF LUKE, BANKS & WEEKS, NEW YORK CITY**

Senator BROOKHART. What is your residence address?

Mr. WEEKS. Englewood, N. J.

Mr. GRAY. I am addressing this testimony to the General Asphalt Co. pool. You are a member of the firm of Luke, Banks & Weeks, brokers and members of the New York Stock Exchange, are you not?

Mr. WEEKS. Yes, sir.

Mr. GRAY. And that firm of course is a partnership?

Mr. WEEKS. Yes, sir.

Mr. GRAY. How long has it been in existence?

Mr. WEEKS. About 23 or 24 years.

Senator BROOKHART. And that firm is located where?

Mr. WEEKS. No. 14 Wall Street, New York City.

Mr. GRAY. How long have you been in that firm?

Mr. WEEKS. Ever since it was started.

Mr. GRAY. Now, you were on the board of the General Asphalt Co. were you not?

Mr. WEEKS. I am.

Mr. GRAY. You are still on the board?

Mr. WEEKS. Yes, sir.

Mr. GRAY. You are a director of the General Asphalt Co.?

Mr. WEEKS. Yes, sir.

Mr. GRAY. How long have you been on that board?

Mr. WEEKS. I think about five years, four or five years.

Mr. GRAY. In May of 1929 you were on the board of the General Asphalt Co., were you not?

Mr. WEEKS. I was.

Mr. GRAY. And in May of 1929, or to be exact, on May 15, 1929, Luke, Banks & Weeks, a brokerage firm and members of the New York Stock Exchange, sent out to various people an invitation to join in a pool in the buying and selling on both the long and short sides, the stock of the General Asphalt Co., did they not?

Mr. WEEKS. They sent out a participation of the syndicate which was called a group. It was not called a pool.

Mr. GRAY. It was the same thing that we call a pool, was it not?

Mr. WEEKS. Yes, sir; to buy. There is a word in the syndicate agreement, which was copied after the general forms of syndicate agreements.

Mr. GRAY. And it got in that agreement by mistake?

Mr. WEEKS. No; not at all. It got in there to protect the managers in case they made a mistake.

Mr. GRAY. In other words, if the managers of the pool made the mistake of operating on the long side of the market they were given authority by the pool agreement to operate on the short side in event of the stock going down and they thinking it advisable to do so, is that correct?

Mr. WEEKS. Mr. Gray, do you want a really correct answer to that question?

Mr. GRAY. I want you to answer my questions, and of course I want a correct answer.

Mr. WEEKS. No; that is not correct, because in a lot of these groups you distribute stocks that you buy to the various members. But you still retain control over it; they carry it themselves rather than you. Therefore, if you sell 500 shares the syndicate may be long 40,000 or 50,000 shares, and you sell 500 shares in the market but you do not call on them all for their proportion. You are technically short that, although you are not short that at all. That is the true reason why it was put in. The syndicate was formed to buy stock and carry the stock.

Mr. GRAY. I now call the committee's attention to the fact that this invitation to participate is dated May 15, 1929, and starts out by saying:

We are forming a group to underwrite, purchase, sell and generally deal in shares of the common stock of the General Asphalt Co., a corporation organized under the laws of New Jersey—

And so on.

Then it gives the number of shares of the common stock of the company for which the group was formed as to which it may at any time be committed, including any underwriting, and that it may be either for long or short account, and that it shall not exceed 150,000 shares. It then follows in the usual form, and I am handing this to you to ask you whether or not that is a correct copy of one of the original invitations that you believe was sent out by your firm, Luke, Banks & Weeks, inviting people to participate in that pool.

Mr. WEEKS. That is.

(The paper referred to was marked "Committee Exhibit No. 4, May 19, 1932," and is as follows:)

GENERAL ASPHALT Co., STOCK GROUP,  
*May 15, 1929.*

DEAR SIR: We are forming a group to underwrite, purchase, sell and generally deal in shares of the common stock of the General Asphalt Co., a corporation organized under the laws of New Jersey (herein termed company), in which we will participate, and of which we are to be the managers. The maximum number of shares of common stock of the company for which the group may at any time be committed, including any underwriting, and either for long or short account, shall not exceed 150,000 shares.

We have reserved for you, subject to your immediate acceptance being received by us, a participation in this group of ——— shares as your proportionate share of the maximum of 150,000 shares. Each participant shall share in the net profits or the net losses of the group, in the proportion which the number of shares subscribed for by him bears to 150,000.

Participants shall pay \$15 per share on the number of their respective participations at the time this agreement is signed, and the balance or any part thereof when called upon by the managers, whether at or before or after the termination of the group, and without reference to the receipt or possession by the managers or by the participants of any of such shares.

We shall have full power to underwrite, subscribe for, purchase, sell, repurchase, resell, and generally deal in the shares of common stock of said company or rights to subscribe thereto, at such prices and upon such terms, and to pay such commissions for effecting sales or purchases for the account of the group as we may deem advisable, and may ourselves charge as an expense to the group the regular New York Stock Exchange commissions for sales or purchases effected by us as brokers, which we are hereby authorized to do. Luke Banks & Weeks, as a partnership, may deal with themselves as managers in the sale or purchase of shares and may profit from sales to or purchases from the group without accountability to the group members, provided, however, that any purchase from or sale to Luke Banks & Weeks as a partnership

shall be at a price not less advantageous to the group than the market price current at the time of any such purchase or sale.

We shall have sole direction and management of the group with full power to appoint and employ agents and brokers and may delegate to them or either of them any of our powers or duties hereunder, and shall carry on the same in such manner as we may deem advisable, and shall not be liable under any of the provisions hereof nor for any matter connected herewith, except for want of good faith. No obligations, not expressly assumed by us under this agreement, shall be implied therefrom.

We shall have the right to borrow money, either from ourselves or others, for the account of the group, and as security for any loan or loans so made, to assign and pledge any shares of common stock of the company held for the account of the group or any of the obligations of the participants hereunder, upon such terms and conditions as we shall deem for the best interests of the group.

Nothing herein contained shall constitute the participants partners with the managers or with one another, nor render them liable to contribute more than their ratable amount, nor render the managers liable for the subscription of any participant. Any loss suffered by the group through the failure of any participant to carry out his obligations hereunder shall be charged as a loss to the entire group. The managers may be participants in this group, and to the extent of such participation or reservation by them, shall participate in the profits or losses of the group upon the same basis as other participants. The managers may in their discretion permit substitution of participants.

All expenses incurred in connection with this group, including the managers' compensation and attorneys' fees, shall be charged against the group.

We shall receive for our services as managers of the group, 10 per cent of the net profits of the group.

Participants shall share pro rata, after allowing for expenses of the group, in the net profits or net losses. Apportionment and distribution by the managers of profits or losses, after charging all expenses, shall be conclusive upon the group, as shall be the written statement of the managers of the group.

The firm of Luke Banks & Weeks is a copartnership, and in case of any change in the firm, the firm as from time to time constituted shall continue as managers with all the powers, rights and title vested in the present firm as the managers hereunder, without further act or assignment.

The group will expire at the close of business May 15, 1930, unless sooner terminated by us, but may be extended by us from time to time upon notice to the participants for a period or periods not extending beyond May 15, 1931.

Any notice hereunder to participants shall be deemed to have been duly given if mailed or telegraphed to the participants, directed to the addresses furnished by them, or if none is furnished, directed in our care.

This letter may be executed in several counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute but one and the same instrument, and the terms hereof shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto.

Please advise us of your acceptance of this participation on the terms stated, by signing the form set forth on the inclosed duplicate of this communication.

Yours very truly,

—————, *Managers for the Group.*

MESSRS. LUKE BANKS & WEEKS.

DEAR SIR: I hereby accept the participation of ——— shares of common stock of General Asphalt Co. under the terms and conditions set forth above.

Name\_\_\_\_\_

Address to which all notices are to be sent\_\_\_\_\_

MAY —, 1929.

Mr. GRAY. Now, Luke Banks & Weeks, a brokerage firm of which you were a member, sent the invitation out, didn't they?

Mr. WEEKS. Yes, sir.

Mr. GRAY. And you, John L. Weeks, a member of that brokerage firm, managed the pool, didn't you?

Mr. WEEKS. I did when I was there.

Mr. GRAY. You were the technical manager, at any rate?

Mr. WEEKS. I formed the pool myself. I invited those people personally to go in. I did not mail out any of these certificates.

Mr. GRAY. Oh, no. Of course, your clerks did that.

Mr. WEEKS. No; I saw to that myself, personally. There were only about 20 given out.

Mr. GRAY. I will get into who is in it in just a moment. Did you get any management fee?

Mr. WEEKS. No; none except the regular stock exchange commission.

Mr. GRAY. In other words, your house received the commissions?

Mr. WEEKS. Yes.

Mr. GRAY. That pool operated for how long?

Mr. WEEKS. Two years.

Mr. GRAY. Now among your participants of the pool was the firm of M. J. Meehan & Co.; is that right?

Mr. WEEKS. Yes, sir.

Mr. GRAY. The firm of Jesup & Lamont; is that right?

Mr. WEEKS. Yes.

Mr. GRAY. The firm of J. G. Mayer & Co.; is that right?

Mr. WEEKS. Yes.

Mr. GRAY. And they were all stock-exchange houses and members of the stock exchange in New York; that is correct, isn't it?

Mr. WEEKS. Yes.

Mr. GRAY. And among the other participants was Horatio G. Lloyd; is that true?

Mr. WEEKS. He was one of them.

Mr. GRAY. And who was he?

Mr. WEEKS. He was a partner in Drexel & Co. in Philadelphia.

Mr. GRAY. And he was the chairman of the executive committee of General Asphalt Co. also, wasn't he?

Mr. WEEKS. He was, I think, at that time. He has not been for the last two years.

Mr. GRAY. Well, I am talking about when this pool was formed and when he became a participant.

Mr. WEEKS. I think he was. Before that time anyhow. I think he was at that time.

Mr. GRAY. Now going down this list of names, out of 150,000 shares Thomas Cochran had 35,000. Who was he?

Mr. WEEKS. He is a customer of ours.

Mr. GRAY. Just a customer?

Mr. WEEKS. Well, I mean—

Mr. GRAY. Is he connected with any other brokerage house?

Mr. WEEKS. Yes. He is a partner in J. P. Morgan.

Mr. GRAY. Why didn't you say that?

Mr. WEEKS. If you had asked me for it I would have done so.

Mr. GRAY. Well, you understood what I meant. Cochran was a partner in J. P. Morgan & Co., a banking house, and he had 35,000 shares. M. J. Meehan & Co. had 30,000 shares?

Mr. WEEKS. That is correct.

Mr. GRAY. Horatio G. Lloyd, chairman of the executive committee of the General Asphalt Co. had 20,000 shares. Correct me if I am wrong in any of these figures.

Mr. WEEKS. I gave you those figures.



Mr. GRAY. William G. Skelly. Who was he?

Mr. WEEKS. President of the Skelly Oil Co.

Mr. GRAY. Was he on the board of directors of the General Asphalt Co.?

Mr. WEEKS. No.

Mr. GRAY. Hold any official position there?

Mr. WEEKS. No.

Mr. GRAY. And he had 10,000 shares?

Mr. WEEKS. Yes.

Mr. GRAY. S. R. Guggenheim had 10,000 shares. Who is he?

Mr. WEEKS. Well, he is a copper man in New York.

Mr. GRAY. Now Jesup & Lamont we have already referred to. They had 10,000 shares. Now, Luke, Banks & Weeks had 10,000 shares. That is your brokerage firm. Who were you agents for?

Mr. WEEKS. We took that for ourselves personally and for our immediate families.

Mr. GRAY. That is, the members of the firm and their families had an interest in this?

Mr. WEEKS. Yes.

Mr. GRAY. Bonbright & Co. Who were they?

Mr. WEEKS. A bond house in New York.

Mr. GRAY. Robert C. Ream. Who is Ream?

Mr. WEEKS. Son of Norman C. Ream. Railroad man.

Mr. GRAY. And James H. Barr had 3,000 shares. Who is he?

Mr. WEEKS. Chairman of the board of the National Supply Co.

Mr. GRAY. Who is Joseph D. Gengler with 1,000 shares?

Mr. WEEKS. Member of the New York Stock Exchange.

Mr. GRAY. Lubawee Corporation was formed for trading in stocks, and the Lubawee—Lu-ba-wee was a combination of Luke, Banks & Weeks?

Mr. WEEKS. Yes; Luke, Banks & Weeks.

Mr. GRAY. That is another member of this syndicate?

Mr. WEEKS. Of a thousand shares.

Mr. GRAY. Yes; 1,000 shares.

Mr. WEEKS. Yes.

Mr. GRAY. Who is the Esco Corporation?

Mr. WEEKS. That is a corporation that belongs to Ernest Stauffen, I think.

Mr. GRAY. Any connection with Luke, Banks & Weeks?

Mr. WEEKS. None whatever.

Mr. GRAY. All right. Who is the Orba Corporation? That is C. A. Corliss, isn't it?

Mr. WEEKS. Yes.

Mr. GRAY. Who is Corliss?

Mr. WEEKS. A chocolate man in New York. Lamont, Corliss & Co.

Mr. GRAY. Yes. Who is the Rondale Corporation?

Mr. WEEKS. Rondale is Stephen Leonard.

Mr. GRAY. Who is Leonard?

Mr. WEEKS. Leonard is a merchant uptown. I think he has a dry-goods store.

Mr. GRAY. Now, they use these names for trading in stocks, don't they? These corporations' names?

Mr. WEEKS. No; that is the name they give us. Evidently it is a corporation name.

Mr. GRAY. Yes.

Mr. WEEKS. And as far as we know that they have their affairs in. Maybe a family owns its stock or something like that. I don't know.

Mr. GRAY. Who is Theodora Cochran?

Mr. WEEKS. That is my partner's wife. Williams Cochran's wife.

Mr. GRAY. Who?

Mr. WEEKS. Williams Cochran's wife.

Mr. GRAY. You have a partner in your firm named Williams Cochran?

Mr. WEEKS. Yes. Williams Cochran.

Mr. GRAY. Now, prior to 1929 the General Asphalt Co. never issued any dividends, did it?

Mr. WEEKS. No; they never paid dividends.

Mr. GRAY. And they had outstanding certain bonds and certain preferred stock; isn't that true?

Mr. WEEKS. That is true.

Mr. GRAY. What was done in the early part of 1929 or at any time in 1929 with respect to those bonds and that preferred stock?

Mr. WEEKS. Why, the company called the bonds. They called the bonds for payment.

Mr. GRAY. When?

Mr. WEEKS. In 1929. I have a letter here that gives the exact date. October 1, 1929.

Mr. GRAY. And at whose suggestion on the board were those bonds called?

Mr. WEEKS. At the suggestion of Mr. Sewall, the president of the company.

Mr. GRAY. Not at your suggestion?

Mr. WEEKS. No.

Mr. GRAY. And you had not suggested it originally?

Mr. WEEKS. No.

Mr. GRAY. You mean to tell me, Mr. Weeks, that in my office in New York City yesterday you didn't tell me that the conversion of those bonds and the conversion of the preferred stock into common stock was done at your suggestion to the board?

Mr. WEEKS. I agreed to it.

Mr. GRAY. Didn't you tell me yesterday that it was your initiative, that you made the suggestion?

Mr. WEEKS. I never made the suggestion to the board.

Mr. GRAY. I didn't ask you whether you made the suggestion to the Board. I am asking you right now this question, whether in my office in New York yesterday you didn't tell me that the suggestion with respect to the conversion of those bonds and that preferred stock was made by you to the board of directors? Now did you or didn't you?

Mr. WEEKS. I didn't intend to, if you understood it that way; no.

Mr. GRAY. It is not a question of what I understood. I am asking you whether, in plain language——

Mr. WEEKS. No.

Mr. GRAY (continuing). Just as I have indicated, you didn't tell me that?

Mr. WEEKS. No.

Mr. GRAY. All right. Then you made no such suggestion to the board?

Mr. WEEKS. No.

Mr. GRAY. Did you suggest the conversion of the preferred stock?

Mr. WEEKS. I did.

Mr. GRAY. Yes. But not the bonds?

Mr. WEEKS. Not the bonds.

Mr. GRAY. Why did you suggest the conversion of the preferred stock?

Mr. WEEKS. Because the company had earned a great deal of money for some time, had earned surplus around \$7,000,000, and there was quite a demand for the stock on the market, and I thought it was a good time to get rid of the preferred stock.

Mr. GRAY. What was the set-up, do you remember, just before that, as to the bonds and the preferred stock and the common?

Mr. WEEKS. Well, it is right in that letter, Mr. Gray.

Mr. GRAY. Do you mean that syndicate—

Mr. WEEKS. No; that letter.

Mr. GRAY. This letter?

Mr. WEEKS. That you have not seen. I got that yesterday after I came back.

Mr. GRAY. All right; let me see the letter. I think this should be read into the record. It is dated August 27, 1929, and it is signed by Arthur W. Sewall as president of the General Asphalt Co., and is as follows:

GENERAL ASPHALT Co.,  
Philadelphia, August 27, 1929.

*To all Preferred and Common Stock Holders of General Asphalt Co. and Holders of Its 6 Per Cent 15-Year Sinking Fund Convertible Gold Bonds:*

For some time past the board of directors of your company has been giving consideration to the question of dividends on the common stock. The earnings of the company, as you know, have been substantial, but it has been necessary to use them for corporate purposes because of the financial structure of the company. Its outstanding bonds and its preferred stock are both convertible into common stock, thus restricting the issuance of additional stock for capital purposes. However, the continued turning back of earnings into the business has resulted in building up a strong corporate position and has made it possible for the company to now simplify its financial structure with a view to initiating dividend payments on the common stock.

To accomplish such simplification it is proposed that the entire outstanding issue of 6 per cent convertible bonds be called for redemption on October 1, 1929, the next interest date. It is also proposed to call for redemption on December 23, 1929, the entire outstanding issue of preferred stock. The retirement of the above issues will leave only the common stock to represent the assets of the company and to share in its earnings.

To provide funds for the redemption of such bonds as are not converted, rights to subscribe to additional common stock at \$50 per share will be offered to common-stock holders of record on October 23, 1929, in proportion to their then holdings. The conversion of the preferred stock and the subscription to the common stock will be underwritten by the company's bankers, Messrs. Drexel & Co.

Your board of directors has also thought it advisable to segregate into a new corporation to be organized to hold them, the company's oil interests in western Venezuela or other such properties as may hereafter be acquired; the entire capital stock of which new corporation will be placed in the treasury of the company.

A special meeting of the stockholders, notice of which will be mailed, is being called to consider the steps above outlined. At this meeting the stockholders will be asked to approve changing the common stock from a par value

of \$100 per share to no-par value, the new shares to have no preemptive subscription right to additional issues of stock of any class. They will also be asked to increase the authorized new common stock to 1,000,000 shares no-par value.

The above plan has the unanimous approval of your board of directors.

Respectfully submitted.

ARTHUR W. SEWALL, *President.*

Mr. GRAY. That letter doesn't answer my question. What was the set-up? What was the amount of bonds outstanding?

Mr. WEEKS. I think there were about \$5,000,000 bonds outstanding. I was not in favor of retiring the bonds.

Mr. GRAY. I didn't ask you whether you were in favor of it. I asked you what was the set-up?

Mr. WEEKS. I forget the number of shares, but I think—doesn't that letter say how many shares there are?

Mr. GRAY. No; it does not.

Mr. WEEKS. I haven't got a statement of it, but I think—

Mr. GRAY. All right. Now, did you think when you organized this pool on May 15, 1929, that this plan was going to be adopted by the board of directors?

Mr. WEEKS. No.

Mr. GRAY. You did know that this company never paid a dollar of dividends, didn't you?

Mr. WEEKS. Yes.

Mr. GRAY. And you did take into the pool the chairman of the executive committee, and you on the board went into the pool?

Mr. WEEKS. Yes.

Mr. GRAY. And as a matter of fact this plan was adopted, these bonds were called, these stocks were converted, and immediately after the meeting, at which the conversion took place, the board of directors met and declared a dividend of \$4 a share, didn't they?

Mr. WEEKS. No; I think they declared a dividend of \$1 a share.

Mr. GRAY. You think they did. Well, they put that dividend on a \$4 a year basis maybe, and declared a dividend of a dollar for the quarter.

Mr. WEEKS. It was declared as a dividend particularly, as an initial dividend of \$1.

Mr. GRAY. And when was that? What part of 1929?

Mr. WEEKS. In November, I should say.

Mr. GRAY. Right after this plan was adopted with respect to the conversion?

Mr. WEEKS. Well, that letter was dated August 27, wasn't it?

Mr. GRAY. That letter is dated August 27, but it refers to a meeting as of a later date, some time in October.

Mr. WEEKS. Well, that was when the plan went into effect, and after the conversion of all the obligations of the company, when they were out of the way, were retired, any senior obligations, then they paid an initial dividend.

Mr. GRAY. Yes.

Senator FLETCHER. How did you manage to convert \$5,000,000 of bonds and the preferred stock which you say you do not know what it amounted to?

Mr. WEEKS. We didn't convert the bonds. We paid the bonds off at 105 and interest. We took that money out of the treasury.

Senator FLETCHER. Did you do that out of the sale of stock?

Mr. WEEKS. No. We had an earned surplus of about \$7,000,000. The Asphalt Co. is about 35 years old. It had earned money, a little bit, over a period of time, for years, and it never was paid out in dividends. It was always set up in its surplus.

Senator FLETCHER. And so you bought the bonds out of the surplus? And the preferred stock too?

Mr. WEEKS. No; we called the preferred stock at 110. The stockholders had the privilege of converting it into a share and a half of common or accepting \$110 in cash for it. But they all converted it except 200 shares.

Senator FLETCHER. One million was that new issue of common stock?

Mr. WEEKS. No; only issued about 30,000 shares to do that, because the whole amount of the Asphalt stock outstanding to-day is 413,000 shares. There are only 413,000 shares outstanding to-day after converting the preferred stock and retiring the bonds, \$5,000,-000 bonds.

Senator FLETCHER. The letter says it is proposed to issue 1,000,-000.

Mr. WEEKS. Well, the other is in the Treasury. It has never been issued. It is in the Treasury, you see.

Mr. GRAY. Now, the subscriptions to this pool—you correct me if my figures are wrong—

Mr. WEEKS. Yes.

Mr. GRAY (continuing). Were \$6,000,000; is that right?

Mr. WEEKS. Approximately I would say that is right. I have given you those figures. I haven't got them.

Mr. GRAY. Now, the pool, as a matter of fact, operated from May 17, 1929, until May the 15th, 1931; is that correct?

Mr. WEEKS. Yes.

Mr. GRAY. I say to you that these figures I am giving you are figures taken from your books.

Mr. WEEKS. That is right.

Mr. GRAY. And during that period of time, a period of approximately two years, you have just told Senator Fletcher the amount outstanding, your pool dealt in one-half a million shares of stock; isn't that correct?

Mr. WEEKS. You have those figures.

Mr. GRAY. You will accept that figure as correct?

Mr. WEEKS. Yes; I will accept that figure as correct if the figures are taken from my figures.

Mr. GRAY. Now, as a matter of fact you did operate at a loss; that is correct, isn't it?

Mr. WEEKS. Yes; we lost.

Mr. GRAY. And you distributed your 132,000 shares of which you were long in May, 1931?

Mr. WEEKS. That is right.

Mr. GRAY. And in order to take that up there was some additional money put in, amounting to \$1,369,292.27?

Mr. WEEKS. Yes; that is right.

Mr. GRAY. Making a total investment of \$7,369,292.27, leaving, however, for distribution, those 132,000 shares of long stock among

your participants in accordance with the proportion of their holdings?

Mr. WEEKS. Yes.

Mr. GRAY. That is the way it was wound up, wasn't it?

Mr. WEEKS. Yes.

Mr. GRAY. Now, you were at various times in the operation of that pool in a very favorable position; that is true, isn't it?

Mr. WEEKS. No; I don't think we ever had much of a profit in it at any time at all.

Mr. GRAY. Do you know what the average prices were at which you bought this stock?

Mr. WEEKS. We started buying the stock around 78 to 81.

Mr. GRAY. Yes?

Mr. WEEKS. There is where we started buying the stock. And we bought most of the stock that we had for the first six months at around 80. I think we bought around 40,000 shares to start off with. That averaged us around \$80 a share. And then we never bought any more stock until later on when it went down lower than that price, so that we finally ended up with an average of about 59. All the stock cost us 59.

Mr. GRAY. As a matter of fact your record shows an average price of 55.79.

Mr. WEEKS. Is that it?

Mr. GRAY. You will accept that figure as correct?

Mr. WEEKS. I have given you the correct figures.

Mr. GRAY. As a matter of fact, in 1929 the price went to 94¾ before the break in 1929 came; that is true, isn't it?

Mr. WEEKS. That is true.

Mr. GRAY. Was that at about the time of the break in the market that this declaration of this dividend was made?

Mr. WEEKS. Oh, no; it was a year later.

Mr. GRAY. What was a year later?

Mr. WEEKS. The dividend was a year later.

Mr. GRAY. Will you let me have that original subscription agreement? Will you just look at the date of it? It is May, 1929, isn't it?

Mr. WEEKS. Yes.

Mr. GRAY. That is correct?

Mr. WEEKS. That is correct.

Mr. GRAY. May, 1929. Your letter that you have handed me here with respect to the action of the board was on August 27, 1929, wasn't it?

Mr. WEEKS. That is right.

Mr. GRAY. And the dividend that was declared was in November of 1929, wasn't it?

Mr. WEEKS. That is right.

Mr. GRAY. Then it was the same year. Now, then, I am asking you whether or not the stock during that intervening period of time did not reach a high of 94¾? Not the next year; I am talking about the same year.

Mr. WEEKS. No; in August, when that letter came out, the high of the stock was 94¼ and the low was 85½.

Mr. GRAY. At that time?

Mr. WEEKS. Now, at the time of the dividend in November the high of the stock was 56 and the low of the stock was 42½.

Mr. GRAY. That was in November after the break?

Mr. WEEKS. That was in November, 1929.

Mr. GRAY. That is the reason your pool lost money. Of course, we understand that. The stock was placed on a \$3 basis in 1930, wasn't it?

Mr. WEEKS. The dividend was reduced to 75 cents in 1930 because the earnings had fallen off.

Mr. GRAY. Yes. In September of 1931 it was placed on a \$2 basis, or reduced to 50 cents, wasn't it?

Mr. WEEKS. That is right.

Mr. GRAY. And in February, 1932, it was placed on a dollar basis, reduced to 25 cents per quarter; that is correct, isn't it?

Mr. WEEKS. That is correct; yes.

Mr. GRAY. I ask you whether or not these figures are correct—and these figures came from your books. That in the year 1930 this General Asphalt Co., in which you held a very large interest, or in which your syndicate held a very large interest, paid out a total of \$1,549,-292 in dividends, while their net income for the year was only \$1,006,796?

Mr. WEEKS. That is correct.

Mr. GRAY. That is correct?

Mr. WEEKS. Yes.

Mr. GRAY. In other words they paid out one and one-half times in dividends in 1930—and your pool was a very large holder of the stock, the members of your pool were very large holders of the stock—they paid out one and one-half times the amount of the net income?

Mr. WEEKS. That is correct.

Mr. GRAY. I ask you whether or not that is correct, that this pool from December of 1929 to March, 1931, while it was on this dividend paying basis that has been indicated—whether your pool did not receive \$613,750 in dividends?

Mr. WEEKS. If that was in proportion.

Mr. GRAY. That figure comes from your records.

Mr. WEEKS. That is correct.

Mr. GRAY. You were on the board that was declaring these dividends?

Mr. WEEKS. Yes.

Mr. GRAY. Right?

Mr. WEEKS. That is right.

Mr. GRAY. And you were a member of this pool?

Mr. WEEKS. Yes.

Mr. GRAY. You had several interests in the pool? Is that right?

Mr. WEEKS. I had two.

Mr. GRAY. Lloyd was on the board?

Mr. WEEKS. Yes; right.

Mr. GRAY. He was interested in the syndicate?

Mr. WEEKS. That is right.

Mr. GRAY. And your concern of Luke Banks & Weeks was handling the stock and selling it and buying?

Mr. WEEKS. To the extent that I have given you the figures of; yes.

Mr. GRAY. And you were getting your commissions from that? I ask you whether or not during this same year, 1930, the pool itself,

out of that one and one-half millions of dollars that were paid, did not get \$448,850 in dividends, or almost one-third of the total amount paid out by them in dividends, and practically or nearly one-half of the entire net income of the General Asphalt Co. during that year?

Mr. WEEKS. Well, if that is the proportion of the stock to the whole that the pool owned then they got that dividend. They did not get anything else except their proportion.

Mr. GRAY. Yes.

Mr. WEEKS. And I have figures here—

Mr. GRAY. Well, I concede that part of it, Mr. Weeks. You do not need to argue that. But the figures I want to make sure of—and these come from our examinations—show that in the year 1930 General Asphalt Co. made \$1,006,796.

Mr. WEEKS. That is correct.

Mr. GRAY. They paid out in dividends \$1,549,292. That left a deficit for the year of \$542,921. But that notwithstanding that, your pool received of the \$1,549,292 that was paid out in dividends, \$448,850, which is a matter of almost one-third, or you can put it that it is over a quarter.

Mr. WEEKS. Yes.

Mr. GRAY. Decidedly over a quarter.

Mr. WEEKS. Yes.

Mr. GRAY. \$448,000 against \$1,549,000.

Mr. WEEKS. I say we owned the same proportion of the company as we received the dividends.

Mr. GRAY. And is it not a fact that in the year 1931, while you were still on the board, while you were still managing this pool, while you were having part of the say at least with respect to what dividends would be declared, during the first six months the company itself showed a deficit of 41 cents per share on the common stock, and notwithstanding that fact there were dividends declared from which your pool received \$102,600?

Mr. WEEKS. Correct.

Mr. GRAY. That is correct, isn't it?

Mr. WEEKS. That is correct.

Mr. GRAY. Of course, I suppose you will say to this committee that the fact that you were on the board, the fact that you suggested the conversion of the preferred stock, the fact that you made this pool in May of 1929, the fact that they paid their first dividends in November of 1929, the fact that they paid more dividends in 1930 than they earned by one and a half times, and the fact that though they had a deficit in 1931 your pool got \$102,000 in dividends, is all just a pure coincidence and has nothing to do with the manipulation of the market or the handling of the affairs of the General Asphalt Co. to the benefit of your pool that you were managing, is that right?

Mr. WEEKS. That is right.

Mr. GRAY. All right. I thought you would say that.

Senator FLETCHER. What was the business of the General Asphalt Co.?

Mr. WEEKS. The business of the General Asphalt Co. is oil, paving. They paved these streets in Washington. Most of the old streets of asphalt were paved by the General Asphalt Co. in Washington 25 years ago. It is a going concern with a fine reputation.



Senator FLETCHER. Where do they get the asphalt?

Mr. WEEKS. They get it from Trinidad. They own the Trinidad Lake Co., and they also own asphalt in Venezuela. They have about \$35,000,000 worth of property. They have 256 acres in New York Harbor. And they are a going concern with a fine reputation. Mr. Gray, can I say that in the year 1929 our earnings applicable to dividends were \$1,934,000, and in 1930 one million—

Mr. GRAY. Wait a minute. In 1929 they were \$4.71 a share; is that right?

Mr. WEEKS. They were \$4.67 a share.

Mr. GRAY. All right. I have it as \$4.71.

Mr. WEEKS. Yes.

Mr. GRAY. And you paid a dividend of \$4?

Mr. WEEKS. And we paid a dividend of \$1.

Mr. GRAY. And nobody knew that was going to be paid except the officers?

Mr. WEEKS. We paid a dividend of only \$1.

Mr. GRAY. On the basis of \$4?

Mr. WEEKS. But, we only paid \$1 out of a million—you are showing in 1930 that we paid \$1,400,000 or \$1,500,000, and in 1929 when we earned \$1,900,000 we only paid \$350,000.

Mr. GRAY. What you want to show is that you had an undistributed surplus that was applicable to the dividends?

Mr. WEEKS. Yes. And we declare dividends out of earnings—of earned surplus, not out of earnings, because we can not tell what the earnings are going to be. We do not get the figures for two or three months.

Mr. GRAY. Did you know that Block, Maloney & Co. were operating a pool in General Asphalt at the same time?

Mr. WEEKS. No.

Mr. GRAY. You did not know that?

Mr. WEEKS. No.

Mr. GRAY. The records of your pool show that on March 5, 1930, while the low of General Asphalt on the market that day was  $57\frac{7}{8}$  and while the high was  $60\frac{1}{4}$  you sold 5,000 shares to Block, Maloney & Co. at \$55 a share; is that correct? Or Benjamin Block & Co., is it now? Is that correct?

Mr. WEEKS. Would you mind if I correct you? I don't think Benjamin Block was ever Block, Maloney & Co. They were two entirely different firms.

Mr. GRAY. Well, Block, Maloney & Co. has been dissolved, and the present firm that succeeded them practically is Benjamin Block & Co.; isn't that so?

Mr. WEEKS. I don't think so. I am under that impression. I don't know. I don't think there is any connection between the two firms. They just happen to be similar names. Is it the same firm?

Mr. GRAY. You may know all about that, Mr. Weeks, but Block, Maloney & Co. was a firm which dissolved, and Block & Co. succeeded to the business of Block, Maloney & Co.

Mr. WEEKS. It did? I don't know.

Mr. GRAY. Now what I am asking you is whether or not to either—I will put my question in the alternative—whether to either Benjamin Block & Co. or to Block, Maloney & Co. on March 5, 1930,

your pool did not sell 5,000 shares of General Asphalt stock at \$55 per share while the low for the day on the board was 57 $\frac{7}{8}$ ?

Mr. WEEKS. Well, the only thing I can say about that is what Mr. Megear told you yesterday. He said that where it shows on that date that he made the verbal arrangement two or three days ago when it was selling at the price of 54, and they bought it at 55, but when the transaction went through, and it took two or three days to sign up the contract, the stock was selling at 57. I think you understand that, Mr. Gray. You told us that yesterday.

Mr. GRAY. Well, just answer that question. It is a fact that you made this sale?

Mr. WEEKS. It is a fact. Your records show it.

Mr. GRAY. All right. I will ask you whether on March 26, 1930, you sold 10,000 shares to that firm at \$56 per share when the low on the New York Stock Exchange that day was 67 $\frac{3}{4}$ , or 11 $\frac{3}{4}$  points higher?

Mr. WEEKS. If our records show that.

Mr. GRAY. Your records show that. I will ask you whether or not on March 31, 1930, you sold Block, Maloney & Co. 10,000 shares at \$57 per share when the low on that day was \$65 $\frac{3}{8}$ ?

Mr. WEEKS. These sales were arranged a month ahead of time.

Mr. GRAY. I am going to give you the benefit of that. In other words, Mr. Megear told me yesterday in your presence that an arrangement had been made with Block, Maloney & Co., or Benjamin Block & Co., whatever the firm would be, to give them the sale of stock at a certain price, and in consideration of that to give them an option to buy at future dates at certain prices, and because of that fact the sale was made to them at those prices?

Mr. WEEKS. Mr. Megear knows all about that, and he is right here. I was away to South Carolina and didn't have anything to do with that. Mr. Megear knows about that.

Mr. GRAY. I ask you whether or not those stocks were sold to Block, Maloney & Co. at a price less than the market price; that is, at a price less than that which you could have gotten for it if you had sold it on the stock exchange, because of the fact that you wanted Block, Maloney & Co. to help keep up an active market for you in order to keep the price of the stock up for the pool?

Mr. WEEKS. No, sir.

Mr. GRAY. Nothing of that kind?

Mr. WEEKS. No, sir.

Mr. GRAY. I ask you whether or not on March the 4th, the day before that first 5,000 shares was transferred, you did not get a letter from Block, Maloney & Co., of which this is a copy? I will read it, and then hand it to you:

BENJAMIN BLOCK & Co.,  
New York, March 4, 1930.

MESSRS. LUKE, BANKS & WEEKS,  
14 Wall Street, New York City.  
(Attention of Mr. Thomas J. Megear.)

DEAR SIRS: In reply to your letter of even date, we beg to say that the matter referred to therein is acceptable to us.

Hoping that you will give us whatever assistance you can marketwise, and assuring you that we will do our utmost for a successful culmination, we remain,

Very truly yours,

BENJAMIN BLOCK & Co.

I wish you to tell the committee what they mean when they say to you "Hoping that you will give us whatever assistance you can marketwise," and when they assure you that they will do their utmost for a successful culmination?

MR. WEEKS. Mr. Gray, I don't know. I never saw that letter until I showed it to you yesterday. You saw that letter the same time I did. I don't know what they mean.

MR. GRAY. Well, you are a broker?

MR. WEEKS. Yes.

MR. GRAY. Your concern has been in existence for a good many years?

MR. WEEKS. Yes.

MR. GRAY. And you are familiar with the language of the Street more than I am?

MR. WEEKS. Yes, sir.

MR. GRAY. What do Block, Maloney & Co. mean when they say to you what they do with respect to giving them help marketwise? What do you mean by marketwise?

MR. WEEKS. I don't know what they mean by that.

MR. GRAY. You do not?

MR. WEEKS. I think you will have to ask them. I don't know.

MR. GRAY. Might I suggest to you—

MR. WEEKS. I couldn't honestly say what that means.

MR. GRAY. Might I suggest to you that it means that they want you to cooperate with them in whatever may be done with respect to the marketing of that stock, whether it be selling or buying, and not act—that is, not permitting your firm to act in a manner that would be contrary to the way that they would act? Not to buy when they were selling, not to sell when they were buying? Isn't that what it means to help marketwise?

MR. WEEKS. It might mean that, but not necessarily.

MR. GRAY. Wouldn't you guess that it was?

MR. WEEKS. No.

MR. GRAY. You wouldn't? Well, I haven't been on the exchange as long as you, but I would guess it. Now, will you read the last part of that letter, please, about the culmination? Read it out loud.

MR. WEEKS (reading):

Hoping that you will give us whatever assistance you can marketwise, and assuring you that we will do our utmost for a successful culmination, we remain,

Very truly yours.

MR. GRAY. What do they mean by a successful culmination? A successful culmination of what?

MR. WEEKS. Don't you think that you ought to read our letter to Block?

MR. GRAY. Yes.

MR. WEEKS. So that the people know what you are talking about?

MR. GRAY. Yes; I think you are right. That refers to the letter of March 4, doesn't it? Is that correct? That refers to the letter of March 4, doesn't it, Mr. Weeks?

MR. WEEKS. This is dated March 4.

MR. GRAY. Yes.

MR. WEEKS. "In reply to your letter of even date."

Mr. GRAY. I want to read you this letter of March the 4th, and direct your attention to the fact that you said that Mr. Megear had conducted these negotiations several days previous. Addressed to Messrs. Benjamin Block & Co., attention Mr. William B. Anderson. [Reading:]

GENTLEMEN: We hereby confirm understanding reached between our Mr. Thomas J. Megear and your Mr. William B. Anderson, as follows:

1. You will purchase from us to-day 5,000 shares of General Asphalt Co. stock at \$55 per share, payment for said stock to be made to-morrow. We hereby agree to repurchase from you all or any part of said 5,000 shares at a price of \$52 per share at any time up until 2.45 p. m. March 19, 1930.

2. In consideration of your purchase of said 5,000 shares from us, and provided that we do not repurchase any part of said 5,000 shares from you, we hereby grant you an option to purchase an additional 10,000 shares (all or none) of General Asphalt Co. stock at \$56 per share at any time up to and including April 3, 1930, at 2.45 p. m.

3. If the above option is exercised, we hereby grant you an additional option to purchase 10,000 shares (all or none) of General Asphalt Co. stock at \$57 per share at any time up to and including May 3, 1930, at 2.45 p. m.

If this meets with your understanding of the agreement, will you kindly confirm same by letter?

Very truly yours.

Now that is your letter, isn't it?

Mr. WEEKS. That is our letter.

Mr. GRAY. All right. What is there that is in your letter that induced Benjamin Block & Co. to use the words "marketwise" and "assuring you that we will do our utmost for a successful culmination?"

Mr. WEEKS. Nothing in that letter. Therefore I don't know what you mean.

Mr. GRAY. All right, if you don't we will put these letters in the record and let the committee draw their own conclusions from them. Now is it not a fact that these stocks and these options were given to Block, Maloney & Co. for the purpose of having them cooperate with you in keeping up the market?

Mr. WEEKS. No, sir.

Mr. GRAY. It is not?

Mr. WEEKS. No, sir.

Mr. GRAY. You say that is not so. Now did you keep a long position in this stock or at times did you have a short position?

Mr. WEEKS. Never had a short position. We were always long in the stock.

Mr. GRAY. Always long?

Mr. WEEKS. Yes.

Mr. GRAY. Do you know the position that Block, Maloney assumed?

Mr. WEEKS. I don't know anything about it except that we sold them stock.

Senator FLETCHER. Did they buy the other 10,000 shares?

Mr. WEEKS. I don't think they did.

Mr. GRAY. Well, I am going to put that company's position upon the record; Block, Maloney & Co.'s position in this stock, from March 5 to March 31, 1930, which was the period of time right after this letter of March 4 was written. This can be verified from the books of Block, Maloney & Co.

That on March 5, 1930, that is the close of the day, at the close of the day after they had received the 5,000 shares from Luke, Banks & Weeks that is referred to, they were 3,300 shares long.

On March 6 they were 3,600 shares long.

On March 7 they were 1,500 shares long.

On March 10 they were 800 shares long.

On March 11 they were 1,100 shares long.

On March 12 they were even.

On March 13 they were 900 shares short.

On March 14 they were 3,300 shares short.

On March 17 they were 3,900 shares short.

On March 18 they were 9,200 shares short.

On March 19 they were 11,300 shares short.

On March 20 they were 11,600 shares short.

On March 21 they were 11,200 shares short.

On March 24 they were 12,400 shares short.

On March 25 they were 15,100 shares short.

And then the next day they received 10,000 shares from Luke, Banks & Weeks. At the close of that day they were 5,200 shares short.

On March 27 they were 5,700 shares short.

On March the 28th they were 6,500 shares short.

And the next day, March 31, they received 10,000 shares from Luke, Banks & Week, and their account wound up even. But they were not cooperating with your firm?

Mr. WEEKS. Not a bit. Entirely an independent thing.

Mr. GRAY. Do you know how much commissions you earned from the operations in this pool that we have talked about first? You told me yesterday that you thought it as \$80,000. We took from your books a matter of approximately \$85,000.

Mr. WEEKS. Yes.

Mr. GRAY. Now, in addition to that, do you know what their interest and carrying charges amount to?

Mr. WEEKS. Well, we generally charge one-half of 1 per cent more than the money costs us. That is our principle. We have done it for years.

Mr. GRAY. Now, Mr. Weeks, I am going to step aside from the pool in General Asphalt and also from the Block, Maloney end of the pool. Can you make to this committee any suggestion with respect to the operation of specialists that you may have in your mind for the purpose of improving the practice with respect thereto?

Mr. WEEKS. No.

Mr. GRAY. Is it your opinion that the proper thing for the stock exchange to do with respect to a specialist is to stop him from trading in his own stock?

Mr. WEEKS. I have often thought it might be advisable to try that.

Mr. GRAY. Haven't you said that you thought the stock exchange ought to adopt a rule stopping specialists from trading in the stock in which they were specialists?

Mr. WEEKS. I have said that I thought it might be a benefit for the business houses that do business for the investors and speculators if the specialists acted as brokers rather than as brokers and traders both. And I do feel that that might be well.

Mr. GRAY. Haven't you said that in your opinion the proper thing to do is to stop the specialists from trading on the stock exchange in the stock in which they were specialists?

Mr. WEEKS. I wouldn't say I have made that statements; no.

Mr. GRAY. Didn't you make that statement to me yesterday afternoon?

Mr. WEEKS. Not in the spirit that you are saying it now.

Mr. GRAY. Didn't you make that statement to me yesterday afternoon and then regret that you made it, and call me up and ask me not to press you with respect to that matter to-day?

Mr. WEEKS. No; I didn't. I didn't regret saying that one bit.

Mr. GRAY. Well, then, it is a fact that you did say to me that you thought the stock exchange should stop specialists from trading in the stock in which they were specialists?

Mr. WEEKS. I said I thought it may be a good thing—I said I thought it may be a good thing if the specialists were brokers only, like they are in London, and not traders at the same time they are acting for brokers.

Mr. GRAY. You made another suggestion, did you not, and whether it is good or bad I want it to come before the committee, and that is, that in your opinion the management of the stock exchange should have on its board several high-type outsiders that were not members of the exchange, for the purpose of aiding them in governing the exchange itself?

Mr. WEEKS. I said that I thought that if they had a representative crowd of men that were not just brokers alone, but bankers and lawyers, like the Supreme Court, that type of men, that it would aid the public confidence very much.

Mr. GRAY. Did you not suggest that outsiders of that type should go on the board of the stock exchange? Didn't you?

Mr. WEEKS. I don't think I made any recommendation on that.

Mr. GRAY. I am not discussing with you whether it is possible to do it under the present rules of the exchange, which, of course, is an unincorporated association.

Mr. WEEKS. I said that I thought that if the stock exchange had a bigger and broader board of governors that it would restore the confidence of the general public. I thought that might be——

Mr. GRAY. By the way, you are still on the board of General Asphalt?

Mr. WEEKS. Yes, sir.

Mr. GRAY. And Mr. Lloyd is still on the board of General Asphalt?

Mr. WEEKS. Yes, sir.

Mr. GRAY. That is all I want to ask him.

Senator FLETCHER. You have a seat on the stock exchange, Mr. Weeks?

Mr. WEEKS. No; I am not a member of the stock exchange. I was a member for 16 years. I am not now. I have not been a member for five or six years.

Senator FLETCHER. General Asphalt Co. stock is selling at 7?

Mr. WEEKS. Seven.

Mr. GRAY. I want to ask you whether you were on the board of the Simms Petroleum?

Mr. WEEKS. Yes.

Mr. GRAY. Were you in the pool of Simms Petroleum?

Mr. WEEKS. I had a participation as an individual. Not the firm of Luke, Banks & Weeks.

Mr. GRAY. As an individual?

Mr. WEEKS. As an individual.

Mr. GRAY. We have that pool. Whether we will reach it or not depends on the committee. Did the firm have any interest in that pool?

Mr. WEEKS. No. Their individual partners.

Mr. GRAY. Mr. Weeks, we are through with you. You are still subject to subpoena in case the committee wants to subpoena you.

Senator FLETCHER. Mr. Gray, do you want Mr. Megear? Do you want the partner of Mr. Weeks?

Mr. GRAY. No; he can go. I told him he was subject to subpoena, but he can go. I was anxious to get through this afternoon because both he and Mr. Megear had arranged to leave town this afternoon. I told them I could not release them, but I told them I would try to get through if I could.

We will call Mr. Breen.

### TESTIMONY OF GEORGE F. BREEN, RYE, N. Y., DEALER IN SECURITIES

The CHAIRMAN. Do you solemnly swear that the statements you are about to make will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BREEN. Yes. My name is George F. Breen.

Mr. GRAY. The committee will understand that wherever we refer to figures we either have the account or the transcript of those accounts here and can verify them and back them up with the result of the examination of the files, some of which were so tremendously thick that it was not advisable to bring them, or necessary.

Senator COUZENS. What firm are you with, Mr. Breen?

Mr. BREEN. I am an individual. No firm.

Senator COUZENS. In business for yourself?

Mr. BREEN. Yes.

Senator COUZENS. What is your occupation?

Mr. BREEN. I am a dealer in securities.

Senator COUZENS. Stocks?

Mr. BREEN. Stocks. Strictly stocks.

Senator COUZENS. Strictly stocks. And do you have a seat on the stock exchange?

Mr. BREEN. No, sir.

Senator COUZENS. Your address?

Mr. BREEN. Rye, N. Y.

Mr. GRAY. Mr. Breen, I think you have told the committee that you are not connected with any brokerage house?

Mr. BREEN. No.

Mr. GRAY. You never have been?

Mr. BREEN. No.

Mr. GRAY. You are what is called a free-lance trader, are you not?

Mr. BREEN. I am classed as a dealer in securities, sir.

Mr. GRAY. Now, before I get into the proposition of the Kolster Radio, about which I am going to ask you, I want to ask you about

another practice on the stock exchange in New York. I will lead you to it. If I am wrong in my statement in reference to it you will please correct me. Is it not a fact that it is a general practice of the officers, or of the officers and directors, whoever may be the guiding and controlling factor of the particular corporation, where their stocks are traded in on the New York Stock Exchange and where the price seems to be wavering, to take men like yourself and give you an authority up to a certain point to go out and buy those stocks to support the market?

Mr. BREEN. Yes.

Mr. GRAY. And you have been doing that yourself for such corporations, haven't you?

Mr. BREEN. Yes, sir.

Mr. GRAY. For how long past?

Mr. BREEN. Oh, for twenty-odd years.

Senator FLETCHER. Let us get Mr. Breen's name. What is your name, please?

Mr. BREEN. George F. Breen.

Senator FLETCHER. Breen. How do you spell the name?

Mr. BREEN. B-r-e-e-n.

Senator FLETCHER. And your address?

Mr. BREEN. Rye, N. Y.

Senator FLETCHER. Thank you.

Mr. GRAY. Won't you tell us of some of the instances in which you have done that? What the circumstances were surrounding those particular instances? What the limitation of your authority was, and what you did?

Mr. BREEN. I can tell you in a general way, Mr. Gray. It would be hard for me to pick out specific things.

Mr. GRAY. Tell the committee in a general way what the practice is.

Mr. BREEN. Well, corporations in many cases, and in many cases institutions, feel that a sustaining of their securities is necessary, and they would give me a trading account, with power to purchase a limited number of shares at some specified price, and with power to redistribute those shares as I could. Naturally my end of the business I tried to redistribute at a profit.

Senator TOWNSEND. They put up the money for you?

Mr. BREEN. Yes.

Mr. GRAY. What is the last instance of that type that you handled?

Mr. BREEN. It is some time back, Mr. Gray, because—

Mr. GRAY. Market conditions have not been such as to justify it?

Mr. BREEN. No; we were in this tremendous boom when things went anyway. Didn't need support.

Mr. GRAY. How many shares would the officers of the company in an instance such as you have indicated authorize you to buy?

Mr. BREEN. Oh, it would be a nominal amount, generally guided by the total capitalization of the company.

Mr. GRAY. What do you mean by a nominal amount?

Mr. BREEN. I would say 25,000, maybe 50,000, if it was a 2,000,000-share concern.

Senator BROOKHART. Give the names of some of the concerns.

Mr. GRAY. Give the names of some of the concerns that have authorized you to do this.



Mr. BREEN. I did not come prepared, Mr. Gray. If you had asked me I would have had it.

Mr. GRAY. I will say that this is something that I obtained from Mr. Breen in the last minute yesterday.

Mr. BREEN. Oil Well Supply Co. I supported for a couple of years.

Mr. GRAY. Oil Well Supply Co., of Pittsburgh?

Mr. BREEN. Yes.

Mr. GRAY. You supported that for a couple of years?

Mr. BREEN. Yes.

Mr. GRAY. In other words, with the corporation's funds?

Mr. BREEN. I would not say with the corporation's funds.

Mr. GRAY. Well, the corporation's officers gave you the funds?

Mr. BREEN. I would not have any way of knowing where the funds came from.

Mr. GRAY. Now, they came from the corporation's officers, didn't they?

Mr. BREEN. I don't know.

Mr. GRAY. Who gave them to you?

Mr. BREEN. I might have received them indirectly from the corporation; yes.

Mr. GRAY. That is what I mean. And you were instructed to go out and buy the stock to keep it from falling below a certain price?

Mr. BREEN. Just to guide it.

Mr. GRAY. Well, can you guide stocks on the New York Stock Exchange?

Mr. BREEN. Ordinarily; yes.

Mr. GRAY. In other words, that can be done?

Mr. BREEN. Pardon me?

Mr. GRAY. That can be done?

Mr. BREEN. Yes, sir.

Mr. GRAY. It can be put up?

Mr. BREEN. If you buy enough of it; yes.

Mr. GRAY. Yes. And it can be put down?

Mr. BREEN. Yes.

Mr. GRAY. That is why you use pools, isn't it?

Mr. BREEN. Not necessarily. Pool operations are different.

Senator BROOKHART. What was the purpose of sustaining this particular stock, or why did they want it sustained?

Mr. BREEN. Well, Senator, there are lots of reasons. It helps the credit of a company to have its stock stabilized.

Senator BROOKHART. Were they putting off stock on the public?

Mr. BREEN. Pardon me?

Senator BROOKHART. Were they putting off stock on the public?

Mr. BREEN. No; no new issues of anything; but it helps the general credit of the company. You stabilize the bond market the same way.

Senator TOWNSEND. How were you paid? So much per share?

Mr. BREEN. No, Senator. I have to take my chances of reselling at a profit. If it came back, in many cases I was not paid.

Senator TOWNSEND. You are guaranteed against loss?

Mr. GRAY. You are guaranteed against loss? I was going to ask the same question that Senator Townsend asked you, only I was putting it in another way. You were guaranteed against any loss?

Mr. BREEN. Absolutely.

MR. GRAY. In other words, when you used the company's money for the purpose of putting the price up to a certain point, if the stock went below that point and you unfortunately couldn't control it, in that instance the company stood the loss?

MR. BREEN. If it was their stock; yes.

MR. GRAY. Yes. If, on the other hand, there was a profit, they got back their principal invested and the profit belonged to you?

MR. BREEN. Not necessarily. Sometimes—

MR. GRAY. You would equitably distribute it?

MR. BREEN. Yes.

MR. GRAY. Some of the officers of the corporation might get some of it?

MR. BREEN. No.

MR. GRAY. Who would get the rest of it besides you then?

MR. BREEN. Well, you see, I always had associates.

MR. GRAY. All right. Then when I say "you" I refer to you and your associates. It would be you and your associates who acted with you?

MR. BREEN. Yes.

MR. GRAY. Would get the profit?

MR. BREEN. Yes.

MR. GRAY. Now tell this committee what you use associates for in keeping the price up?

MR. BREEN. Well, quite often I had many, and I always had two or three associates in the office with whom I would divide the profits. The 100 per cent.

MR. GRAY. What did you use them for?

MR. BREEN. Well, I might have half a dozen or a dozen stocks at one time. It is impossible to—

MR. GRAY. Oh, you would have them to help you?

MR. BREEN. Yes.

MR. GRAY. You needed the associates to help you?

MR. BREEN. Yes.

MR. GRAY. In other words, you mean that you might have a time when at least a half a dozen different companies employed you, you being a perfectly free-lance trader—employed you for the purpose of going out and keeping the price of their stocks up?

MR. BREEN. It would not always be for the same reason, Mr. Gray. I mean sometimes I would not know what the reason would be.

MR. GRAY. Well, whatever the reason might be?

MR. BREEN. Some individual or an institution might want to liquidate a block of stock and give it to me.

MR. GRAY. Whatever the reason might be, the purpose of your activities was to keep the price up to a certain level?

MR. BREEN. Yes; that was my object.

MR. GRAY. That was your object; yes.

Senator COUZENS. That was not necessarily the firm's object though, was it?

MR. BREEN. No. Of course, I would not take a stock and say it is going to stay here at 50 and not go one-eighth below, you see.

MR. GRAY. What did you mean when you answered Senator Couzens that it was not necessarily the firm's object? The firm's object in giving you that money and giving you authority to buy the stock, was what?

Mr. BREEN. To stabilize, not fix the price. In other words, if somebody came in to sell there would be somebody to take it and redistribute it. If the stock dropped \$10 possibly on a sale of a couple of thousand shares it hurts the credit of the company.

Mr. GRAY. Questions have arisen once or twice in these committee minutes as to the intrinsic value. I do not suppose the intrinsic value of that stock had anything to do with the price at which you tried to maintain it?

Mr. BREEN. Stocks generally always meet their value, Mr. Gray.

Mr. GRAY. They do?

Mr. BREEN. Sooner or later.

Mr. GRAY. In the end?

Mr. BREEN. Sooner or later.

Mr. GRAY. Stocks generally meet their value sooner or later. That is the natural law of supply and demand.

Senator BROOKHART. Generally later, is it not, in bankruptcy courts?

Mr. BREEN. It has been sooner lately.

Senator COUZENS. It has been sooner lately.

Mr. GRAY. I direct your attention, Mr. Breen, to a transaction in which you were interested in the fall of 1928 in Kolster Radio stock.

Mr. BREEN. Yes.

Mr. GRAY. You recall it very distinctly, I assume?

Mr. BREEN. Yes. I have the notes here.

Mr. GRAY. Suppose you tell the committee the history of the transaction from the beginning to the end without my asking questions, and we will get it quicker.

Mr. BREEN. I think so.

Mr. GRAY. Go right ahead.

Mr. BREEN. Well, the Kolster Radio Co. was a west coast concern out in San Francisco. It was the old Federal Telegraph Co. Spreckels, the sugar Spreckels family.

Senator COUZENS. What was the president's name?

Mr. BREEN. I think his name was Stone.

Mr. GRAY. That is correct.

Mr. BREEN. And Spreckels, I think Rudolph Spreckels, was chairman of the board. Rudolph Spreckels was a large owner of this Kolster Radio stock. And he reached a point in his other endeavors where he had to dispose of some. So he gave me a series of options on his stock. A certain amount of the stock. Do you have a copy of the option? I have them right here.

Mr. GRAY. I haven't a copy of the options; no, Mr. Breen. You said yesterday afternoon you would endeavor to locate them and bring them with you.

Mr. BREEN. Yes. Well, they are right here.

Mr. GRAY. Suppose we put them on the record in the first instance.

Mr. BREEN. Yes.

Mr. GRAY. Now let me ask you so as to sort of have this in a little more orderly way. You say that Spreckels gave you options. As a matter of fact the matter was directed to your attention by a man named Oscar Alexander; is that correct?

Mr. BREEN. Yes.

Mr. GRAY. You didn't know Spreckels?

Mr. BREEN. Yes.

Mr. GRAY. What?

Mr. BREEN. I knew him.

Mr. GRAY. And then after the matter was directed to your attention then the matter was taken up with you by Mr. Spreckels?

Mr. BREEN. Mr. Spreckels sent for me.

Mr. GRAY. Then you got the option?

Mr. BREEN. Yes.

Mr. GRAY. It is dated October 26, 1928. It is addressed to Messrs. Arthur W. Cotten—and I will tell you about that in a moment—and George F. Breen, in care of E. F. Hutton & Co., New York. [Reading:]

GENTLEMEN: For and in consideration of \$1 paid in hand and other services rendered, I agree to deliver to you the whole or any part of 150,000 shares of the Kolster Radio Corporation common stock subject to the following terms and conditions:

(1) Fifteen thousand shares at \$70 per share net to me within 10 days from this date.

When you have exercised the above option you have the privilege to call:

(2) Fifteen thousand additional shares at \$70 per share net to me within 25 days from this date.

When you have exercised option No. 2 you have the privilege to call:

(3) Twenty thousand shares at \$70 per share net to me within 32 days from this date.

When you have exercised option No. 3 you have the privilege to call:

(4) Fifty thousand shares at \$72 per share net to me within 62 days from this date.

When you have exercised option No. 4 you have the privilege to call:

(5) Fifty thousand shares at \$74 per share net to me within 90 days from this date.

It is understood that you will have the right to take up and pay for in cash these amounts as specified in the above options on or before the dates indicated; and if you fail to do so, this agreement will be terminated forthwith upon such failure.

Yours very truly,

Accepted.

RUDOLPH SPRECKELS.

GEORGE F. BREEN.

E. F. HUTTON & Co.

(Signature guaranteed.)

Mr. GRAY. Now, that is a correct copy of that option, isn't it?

Mr. BREEN. Yes.

Senator COUZENS. Mr. Gray, is there any necessity of reading all those other options?

Mr. GRAY. No. There are no other options. Senator. I will just identify this as under the date of October 30, 1928, in which he agrees to deliver the whole or any part of 100,000 shares at \$84 a share. And they can go upon the record.

(The letter referred to is as follows:)

OCTOBER 30, 1928.

MESSRS. ARTHUR W. COTTEN and GEORGE F. BREEN,

*Care of E. F. Hutton & Co., New York, N. Y.*

GENTLEMEN: For and in consideration of \$1 paid in hand and other services rendered, I agree to deliver to you, the whole or any part of 100,000 shares of the Kolster Radio Corporation common stock at \$84 per share net to me. This option is good for 30 days from this date.

Withdrawals of stock hereunder are to be paid for in cash at time of delivery of stock by me to you.

Yours very truly,

Accepted.

RUDOLPH SPRECKELS.

GEORGE F. BREEN.

E. F. HUTTON & Co.

(Signature guaranteed.)

Mr. GRAY. Now, when you got those options you paid, of course, nothing for them?

Mr. BREEN. Only the legal consideration.

Mr. GRAY. Of a dollar?

Mr. BREEN. Yes.

Mr. GRAY. And you interested in those options four people including yourself; is that correct?

Mr. BREEN. Yes.

Mr. GRAY. One yourself, one Arthur W. Cutten, one Oscar Alexander?

Mr. BREEN. Yes.

Mr. GRAY. And who was the fourth?

Mr. BREEN. L. P. Fisher.

Mr. GRAY. L. P. Fisher. Now, L. P. Fisher is one of the Fisher Bros., as they are known?

Mr. BREEN. Yes.

Mr. GRAY. And Arthur W. Cutten is a Chicago man?

Mr. BREEN. Yes.

Mr. GRAY. And he deals in the grain markets more particularly than he does in the stock market?

Mr. BREEN. Yes.

Mr. GRAY. And you each had a one-fourth interest, did you not?

Mr. BREEN. Yes.

Mr. GRAY. Now, having those options, what did you do?

Mr. BREEN. Why, do you mean what did I actually do?

Mr. GRAY. Yes. I want to know what you did?

Mr. BREEN. Well, I started to sell as soon as I could make a profit.

Mr. GRAY. Is that the first thing that you did?

Mr. BREEN. I don't recall at the instant, Mr. Gray, but I will tell you exactly the procedure.

Mr. GRAY. Go ahead and tell it to us in your own way. I think it will interest the committee.

Mr. BREEN. Well, of course, if you have an option on something you have a certain risk of your own money. Now this does not appear that I had any risk, but I did have a risk as a matter of fact, inasmuch as that if I did not take that first block in 10 days' time the balance was canceled. So, if 10 days would come around and the stock was still at that price with even a little loss I would have taken that 15,000 shares to keep the balance of my option.

Mr. GRAY. Yes.

Mr. BREEN. So, the first step I did was to try and sell that 15,000 shares, so the balance of my option would be continued, and I would be in a position to take it up. And price did not necessarily mean anything on that first lot of stock.

Mr. GRAY. Now, will you amplify that a little? Do you mean that notwithstanding the fact that your option was to buy that first 15,000 shares at \$70 a share it made very little difference to you whether you sold it at 69 or not?

Mr. BREEN. That is correct. As long as I was in a position to take that 15,000 shares naturally with as little risk to myself or associates as possible.

Mr. GRAY. Yes. So what did you do under those circumstances? What is your first step? You sell short, don't you?

Mr. BREEN. Technically short.

Mr. GRAY. Yes.

Mr. BREEN. But you are not short when you have this.

Mr. GRAY. No, I understand. As far as the market is concerned you go in and you sell up to that 15,000 shares?

Mr. BREEN. Yes.

Mr. GRAY. Short?

Mr. BREEN. Yes.

Mr. GRAY. You might be said to be selling it hardly against the box but you are selling it against an option that you have?

Mr. BREEN. Selling it against an option that I have. It is technically short. It is not really short.

Mr. GRAY. Now you do that for this reason, do you not, because of the fact that if the stock goes down you do not have to exercise your option, and you can cover? I am not talking about what moral obligations there may be.

Mr. BREEN. That is hardly true, Mr. Gray. I can tell you one that I took that is down \$30, and I took 160,000 shares of it.

Mr. GRAY. All right. But your position as a matter of fact is this, is it not, that you took your short position with respect to a certain amount—

Mr. BREEN (interposing). I admit what you say can be done, but it is not the ethics of the business.

Mr. GRAY. Well, we are trying to find where those ethics of the business are.

Mr. BREEN. Well, there is such a thing exists.

Mr. GRAY. In the stock market?

Mr. BREEN. Yes.

Senator FLETCHER. The stock was listed, was it?

Mr. BREEN. Yes.

Senator FLETCHER. What was it quoted at?

Mr. BREEN. In the neighborhood of \$70 a share. Around that price.

Mr. GRAY. Oh, no. I will give you the figures, Senator Fletcher. That is wrong.

Mr. BREEN. The Senator means when the option was given.

Senator FLETCHER. Yes; what was it quoted at?

Mr. GRAY. Oh, when the option was given. I did not so understand. I thought he was asking you at what you started to sell it.

Mr. BREEN. No.

Mr. GRAY. As a matter of fact, what you did in this case was to assume a short position right away?

Mr. BREEN. Yes.

Mr. GRAY. Now, what you could have done and assured yourself as being absolutely safe was this, was it not: That if the stock went up, you having sold it, you could get your stocks under your option for the purpose of squaring your position?

Mr. BREEN. Yes, sir.

Mr. GRAY. So that you might either have made or lost a little bit of money, but your risk would not have been great; that is correct, is it not?

Mr. BREEN. Yes.

Mr. GRAY. Now, if your stocks went down—not what you did, but what can be done, the practice—what you could have done was to

cover at any price you thought it ought to be covered on the way down?

Mr. BREEN. Yes.

Mr. GRAY. And therefore, without any risk to yourself, make a decided profit and not take your option up at all?

Mr. BREEN. Yes; that could have been done.

Mr. GRAY. Yes; because the option simply provides that if you do not take it up it falls?

Mr. BREEN. That is correct.

Mr. GRAY. And you are under no legal obligation under your agreement to take it up at all?

Mr. BREEN. No.

Mr. GRAY. Except your danger of losing your option?

Mr. BREEN. In some instances.

Mr. GRAY. Now, you got your option. You started to operate. What was the date of your option, please, if you have it right there in front of you?

Mr. BREEN. October 26, 1928.

Mr. GRAY. Yes. Now you started to operate on the 29th, didn't you.

Mr. BREEN. Well, you have the figures.

Mr. GRAY. You accept the figures as being correct?

Mr. BREEN. Yes.

Mr. GRAY. You haven't any objection to me telling the committee that what you said yesterday to me was that after you started a trade you had never even seen your account?

Mr. BREEN. That is correct.

Mr. GRAY. In other words you did not pay any attention to the price at which it was either bought or sold?

Mr. BREEN. No, sir; only in my mind.

Mr. GRAY. Yes. You left it to somebody else to handle it, to go in and keep selling it and buying it, and keep the market up the same as you did in these other instances?

Mr. BREEN. Well, there is a discretion in there, but I established the policy of what should have been done.

Mr. GRAY. Yes. Then you never even after that took a look at your account?

Mr. BREEN. I knew the position.

Mr. GRAY. But the details you never looked at?

Mr. BREEN. No.

Mr. GRAY. You knew what the price was?

Mr. BREEN. Yes.

Mr. GRAY. On the first day the lowest price at which you sold any of your stock, according to these records, was \$74 a share. That is on the 29th. And the highest price at which you sold that stock on the 29th was 79½ dollars. These sheets from Hutton & Co. show that that is correct.

Mr. BREEN. I accept those figures.

Mr. GRAY. You accept those figures. All right. These figures were furnished to us at your instructions by E. F. Hutton & Co.

Mr. GRAY. Now, upon that first day you actually sold a hundred thousand shares of that stock and actually bought back 30,000 shares. Why did you sell a hundred thousand shares to protect your option on 15,000 shares of stock?

Mr. BREEN. Well, the market might have been there. You sell when the market is there.

Mr. GRAY. Then your total option from Spreckels was for 150,000 shares, was it not? And it cost you \$70 a share with a—I am sorry I haven't got that just in front of me—with a grading up to what price?

Mr. BREEN. 74, and the last was 84.

Mr. GRAY. It strikes an outsider, Mr. Breen, that when you got an option to buy as you had in this case, 15,000 shares at 70, 50,000 shares at 72, and 50,000 shares at 74, and stock was selling on the very first day that you started to operate at from 74 to 79½, the only thing for you to do was to go out and sell your stock and make your profit. Why not?

Mr. BREEN. Well, it is not that easy, Mr. Gray. [Laughter.]

Mr. GRAY. The point I am getting at is this, that in order that you could create an active market—

Mr. BREEN (interposing). You don't pay attention to whether you are going to make four or five points. You have one thing: You have a 50,000 shares of stock to dispose of. That is No. 1.

Mr. GRAY. Yes.

Mr. BREEN. No. 2 is to make a profit if possible.

Mr. GRAY. Yes. What do you have to do?

Mr. BREEN. You have to sell the stock when the demand is there, regardless of whether you make 1 point, 2 points, or 3 points, or 4 points. And that was proven—this stock was all sold at an average profit of less than 3 points.

Mr. GRAY. At an average profit of less than 3 points?

Mr. BREEN. Of less than 3 points on the average amount of stock.

Senator FLETCHER. Do you send out any letters or circulars or literature or anything of that sort?

Mr. BREEN. No, Senator.

Senator FLETCHER. You do not solicit the purchase of stock? Do you just depend on the market?

Mr. BREEN. Yes, sir. In those days it just went one way anyway.

Senator FLETCHER. How long were you disposing of this?

Mr. BREEN. All of these Radio stocks at that time were skyrocketing. You take, for instance—I have a few notations—Radio Corporation went from 85½ to 420. Grigsby-Grunow went up from the original price of \$8 to \$1,600.

Senator FLETCHER. In how long?

Mr. BREEN. About a year and a half's time. It is now about 2 or 1 something. Columbia Graphophone went from 32⅓ to 110, and the Dow-Jones industrial averages went up 101 points in that same time, and this stock went up least of all, went up 44 points.

Senator FLETCHER. Then you closed out?

Mr. BREEN. What? I was out in less than 3 points, Senator.

Mr. GRAY. But, in other words, Mr. Breen, this is one of the things that I want to establish by this case: What you had to do was to go in and buy and sell and within a certain range, disregarding the price at which you bought and the price at which you sold, in order to create an active market and an active demand for Kolster Radio stock, and thus cause the price to go up and give you an opportunity to get out at a better profit than you would otherwise get?



Mr. BREEN. Mr. Gray, it is apparent the demand was there. I did not have to get a demand to sell a hundred thousand shares the first day. The demand was in the market.

Mr. GRAY. You sold a hundred thousand shares the first day and bought thirty?

Mr. BREEN. Yes, sir.

Mr. GRAY. On the second day, which was October 30, you sold 82,400 and bought 24,100.

On the third day, which was October 31, you sold 50,200 and you bought 25,100.

On November 1 you sold 38,300 and you bought 17,500.

On November 2 you sold 27,900 and you bought 18,900.

On the next day, November 5, you sold 7,000 shares and you bought 18,900.

On the 7th you sold 6,600 and you bought 11,600.

On the 8th you sold 11,400 and bought 11,400.

On the 9th you sold 3,300 and bought 9,600.

And on the 12th you sold 12,700 and bought 2,100.

On the 13th you sold 2,600 and bought none.

On the 14th you sold a thousand and bought none.

On the 15th you sold 12,300 and bought none.

On the 16th you sold 16,500 and bought 300.

On the 19th you sold 57,300 and bought 25,900.

On the 20th you sold 16,700 and bought none.

On the 21st you bought 1,200 and sold none.

On the 22d you bought 5,300 and sold none.

On the 26th you bought 6,100 and sold 3,100.

On the 27th you bought 500 and sold 3,400.

On December 4 you bought 3,100 and sold none.

On December 5 you sold 2,000 and bought none.

On December 6 you bought 3,400 and sold none.

On December 7 you bought 6,400 and sold none.

And on December 10 you sold 200 and bought none.

Thus selling 456,900 shares of that stock in a month and a week or two, and buying 206,900, netting you exactly your position of 250,000 shares of stock which you took over to make up the difference between the buying and selling and the exercise of this option?

Mr. BREEN. Yes; that evened it up.

Mr. GRAY. Now, let me ask you whether or not on the days that you sold and did not buy it was because it was not necessary to make any buys to support the market?

Mr. BREEN. I might have sold some out in San Francisco that day; I don't know. I sold 93,800 out there.

Mr. GRAY. Out of this optional stock? That was all reflected in E. F. Hutton & Co.'s books?

Mr. BREEN. It would not come back the same day, Mr. Gray.

Mr. GRAY. Yes, sir; it might be registered on some other day.

Mr. BREEN. Three or four days later.

Mr. GRAY. Now, your price range from the time you started to deal in this to its high was the difference between 74 at the low and 95 $\frac{7}{8}$  at the high; is that correct?

Mr. BREEN. That is correct.

Mr. GRAY. And Mr. Spreckels got how much for his stock?

Mr. BREEN. Exactly those prices you see.

Mr. GRAY. Practically \$19,000,000, wasn't it?

Mr. BREEN. We could figure it out fast enough.

Senator COUZENS. He was lucky to get out at that price, wasn't he?

Mr. BREEN. Yes; he was. But he put it all in the sugar business, so it didn't do any good. [Laughter.]

Senator COUZENS. When you started out on this campaign of buying and selling stock, just what was your object? What were you trying to arrive at?

Mr. BREEN. Trying to liquidate the stock with Spreckels and make some money for myself.

Senator COUZENS. And you had to handle all that number of shares to dispose of 150,000 shares?

Mr. BREEN. You do, Senator. You have to be prepared to buy as well as to sell. You can not just go in and be a seller all the time. If somebody wants to sell stock, you have to be prepared to take it.

Mr. GRAY. That is what we are after, and the reason for that is in order that you can keep up your price on an active market in order that you can ultimately dispose of your own stock, is it?

Mr. BREEN. Yes, sir; but—

Mr. GRAY. Purely manipulation, isn't it?

Mr. BREEN. Not at all.

Mr. GRAY. What do you call it?

Mr. BREEN. Call it buying and selling, the same as in the bond market; no difference.

Mr. GRAY. If you have a lot of stock, you have a quarter of a million shares of stock to sell, what legitimate reason is there if you have something to sell to go out and buy in opposition to it?

Mr. BREEN. I am trading in the market. I might be making quarters and half points in there.

Mr. GRAY. And that is your reason, is it?

Mr. BREEN. Yes.

Mr. GRAY. Why do you go and sell a hundred thousand on the very first day when you have only got an option on the amount that you had?

Mr. BREEN. I answered that. You sell when the demand is good in any market.

Senator FLETCHER. I understood you to say that you could cause a stock to go up or down by your operations.

Mr. BREEN. You can, Senator; with enough buying power anything would go up.

Senator FLETCHER. In that sort of a market you can not have it go down very well?

Mr. BREEN. This particular case was unusual. I mean that stock would have gone up irrespective of anybody. If this stock had not been sold, it might have been sold at \$200 a share.

Senator FLETCHER. How do you manage to manipulate the market so as to have stock go up or go down as you see fit?

Mr. BREEN. You don't manipulate, Senator. You buy it—there are various ways. This does not happen to be a pool. This is just a trading account. There is a difference.

Mr. GRAY. Four members is a trading account and six is a pool?

Mr. BREEN. That is not the difference, Mr. Gray.

Mr. GRAY. What is the difference between a syndicate and a pool?

Mr. BREEN. Well, you know. A pool is a pool of interests where each one puts up an amount of money with a definite purpose of accumulating stock and selling at a profit.

Mr. GRAY. That is a good definition.

Mr. BREEN. You stated that there was no money put up.

Mr. GRAY. There was no money put up and therefore it is not a pool?

Mr. BREEN. It is not a pool, not a syndicate. It is not a pool at all. There is no amount in there for anybody.

Mr. GRAY. That is just what I thought. As a matter of fact, what was the profit that was made by you there? Have you got the figures there?

Mr. BREEN. \$1,351,152.50.

Mr. GRAY. You got three hundred thirty-seven thousand and some odd apiece?

Mr. BREEN. \$337,788.13.

Mr. GRAY. And on the face of the agreement outside of the moral risk that you said that you assumed because of the ethics of the stock exchange profession, you did not risk a cent, did you?

Mr. BREEN. I could hardly say that.

Mr. GRAY. Let me ask you another question: You say that there was a market for this all the time?

Mr. BREEN. Yes, sir.

Mr. GRAY. Why didn't Spreckels sell it in the market?

Mr. BREEN. He could have just as well as I did, at better prices. [Laughter.]

Mr. GRAY. Let me not misunderstand that. So you gentlemen were able to take away from Mr. Spreckels—

Mr. BREEN (interposing). I don't know what was in his mind, Mr. Gray. Maybe he didn't want to appear as a seller.

Mr. GRAY. Yes. In other words, he was willing to lose that which he could have made just as you did, a million and a half.

Mr. BREEN. There is not any question about it. He could have sold it just as easily.

Mr. GRAY. And sold it himself?

Mr. BREEN. Absolutely.

Mr. GRAY. And you think the fact that you bought and sold it during that period of time had absolutely nothing to do with the rise in the price from 74 to 98 in a period of five weeks?

Mr. BREEN. No, Mr. Gray; it did not.

Mr. GRAY. Where did that stock go after you stepped out of the market?

Mr. BREEN. I don't know exactly. I didn't look it up.

Mr. GRAY. I mean immediately thereafter.

Mr. BREEN. Oh, it fluctuated around in there. I wouldn't say it went higher or lower. I wouldn't say that.

Mr. GRAY. I am going to, if the committee pleases, give them the exact data. I got these sheets last night as our final examination of it, in order that we could make our summaries, and I will give the committee the exact data as to what Kolster Radio sold for, the high and the low, on the market for a period of two weeks before this

operation started and for a period of two weeks after this operation quit, so that you can see the picture for yourself, as I showed it to you in Radio this morning.

Senator BLAINE. What was the total Kolster Radio issued?

Mr. GRAY. Can you answer that?

Mr. BREEN. The total issued was eight hundred thirty some odd thousand shares; a million authorized.

Mr. GRAY. While Mr. Spreckels controlled in this particular instance, as shown by the options, irrespective of any other stock that he may have had that we do not know of in this record, 250,000 shares of it?

Mr. BREEN. Yes.

Mr. GRAY. Do you know whether E. F. Hutton got commissions from this transaction? Your profit was net, of course?

Mr. BREEN. I haven't any idea.

Mr. GRAY. You would accept that statement, and I suppose counsel for Hutton & Co. will, that it was \$182,760 as commission on these transactions of Mr. Breen's alone in the period of time that was mentioned.

By the way, some of your stock, too, you had to give away at a lower price than the market, didn't you?

Mr. BREEN. Yes, sir.

Mr. GRAY. Do you know approximately what that stock was?

Mr. BREEN. I don't know what it was specifically, but I know why it was given.

Mr. GRAY. Well, I want you to, because that will turn up on this record, and I don't want anything that is not clear.

Mr. BREEN. Alexander had committed himself to give that stock in some way for having been introduced to Spreckles. It is one of those commission affairs or something.

Mr. GRAY. In other words, somebody first put Alexander on the matter?

Mr. BREEN. Yes, sir.

Mr. GRAY. Then Alexander got you into the matter?

Mr. BREEN. That is correct.

Mr. GRAY. And you got Mr. Cutten and Mr. Fisher into the matter?

Mr. BREEN. Yes, sir.

Mr. GRAY. And when Alexander told you about the matter he said to you that "I have had to give a call"——

Mr. BREEN (interposing). Or an option.

Mr. GRAY. Or an option, the same as you had, "to somebody else who told this to me"?

Mr. BREEN. Yes.

Mr. GRAY. So that when the time came that price went up that person who introduced the matter to Alexander had a right to exercise control there and get stock which was then at a price cheaper than the market?

Mr. BREEN. Yes; and he did, too.

Mr. GRAY. And he did exercise it. Now, by the by, if there was such a market in this matter that you could go right out, the public was so anxious to get Kolster Radio and paid all these prices for it, and you had a chance to make this money, why did you bother

taking Cutten then and making a profit for him of \$337,000, and Fisher, making a profit for him of \$337,000?

Mr. BREEN. Well, there are reasons. I had been in profitable operations with them.

Mr. GRAY. Just generosity?

Mr. BREEN. I would hardly call it that. As I told you, in the first instance here, I had a possible liability here of 30,000 shares.

Mr. GRAY. In other words, it was not so sure that the public was going to take this up?

Mr. BREEN. No; it was not sure. Nothing is sure.

Mr. GRAY. What did you do to help the public pick it up?

Mr. BREEN. I didn't do anything in this instance.

Mr. GRAY. Nothing at all. I think that is all.

Senator FLETCHER. All you did was to watch the market from day to day and either sit by or sell as your judgment dictated?

Mr. BREEN. Yes. It was very wild, and you couldn't even do that, Senator. The tape was running a half to an hour late each day.

Senator TOWNSEND. Did you give the orders yourself?

Mr. BREEN. No, I gave them to a specialist.

Senator TOWNSEND. You just gave the broker discretion to use as he saw fit?

Mr. BREEN. Yes.

Mr. GRAY. You paid no attention to it after you got it started except just look it over once in a while?

Mr. BREEN. I paid attention to it, sure.

Mr. GRAY. I mean you never gave an order yourself at a direct price either to buy or sell?

Mr. BREEN. Not that I recall.

Senator BROOKHART (presiding). The committee will recess until 10 o'clock to-morrow morning in the other room.

(Whereupon, at 5.20 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m., the next day, in room 301, Senate Office Building, Friday, May 20, 1932.)



# STOCK EXCHANGE PRACTICES

FRIDAY, MAY 20, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Thursday, May 19, 1932, in room 301 Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Goldsborough, Townsend, Walcott, Carey, Couzens, Fletcher, and Glass.

Present also: William A. Gray, Esq., counsel of the committee.

Senator BROOKHART (presiding). The committee will be in order.

Mr. GRAY. If the committee please, and Mr. Chairman, I want to first of all put upon the record some data with respect to the prices of Kolster radio stock just before and after the time during which the transactions that were testified to by Mr. Breen yesterday took place. His operations were conducted between October 27, 1928, and December 10, 1928, and the price range, as you will recall, was from 74 to 95 $\frac{7}{8}$ . The prices before he took hold of this stock were these. I am giving you the closing price on the date mentioned:

On October 13 it was 76; on October 15 it was 75; on October 16 it was 74; on October 17 it was 74 $\frac{3}{4}$ ; on October 18 it was 73 $\frac{7}{8}$ ; on October 19 it was 74 $\frac{1}{8}$ ; on October 20 it was 72; on October 22 it was 71 $\frac{1}{2}$ ; on October 23 it was 72 $\frac{1}{8}$ ; on October 24 it was 71 $\frac{1}{8}$ ; on October 25 it was 74 $\frac{3}{4}$ ; on October 26 it was 78.

And the day he started operations, October 27, it was 78 $\frac{1}{2}$ .

And then after his operations were concluded the stock went back, and on December 11 it was 70 $\frac{7}{8}$ ; on December 12 it was 69 $\frac{1}{8}$ ; on December 13 it was 69; on December 14 it was 68 $\frac{1}{4}$ ; on December 15 it was 67 $\frac{7}{8}$ ; on December 17 it was 66 $\frac{3}{4}$ ; on December 18 it was 67 $\frac{7}{8}$ ; on December 19 it was 69 $\frac{1}{4}$ ; on December 20 it was 68 $\frac{7}{8}$ ; on December 21 it was 69; on December 22 it was 70 $\frac{5}{8}$ ; on December 24 it was 73 $\frac{1}{2}$ .

This stock, you will recall, is the stock that he said the public was very ready to take.

Senator BROOKHART. Was that the stock the witness said was worth \$2 now?

Mr. GRAY. Yes.

Senator Norbeck in the chair yesterday asked about a statement as to the assets and liabilities of the Radio Corporation in connection with its new stock and at the time of the operations of the Radio pool. I sent to New York and secured a copy of the application for the listing of the new stock, which sets forth all of the information with respect to the same, and in its complete form. I will give it to the reporter and ask that it be made a matter of record. (Copy of the application will appear in the appendix.)

Mr. GRAY. Mr. Sachs.

**TESTIMONY OF WALTER E. SACHS, NEW YORK CITY, MEMBER OF  
THE FIRM OF GOLDMAN, SACHS & CO.**

Senator BROOKHART (presiding). You do solemnly swear that the testimony you will give to this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SACHS. Yes.

Mr. GRAY. Will you give your full name, please, Mr. Sachs?

Mr. SACHS. Walter E. Sachs.

Mr. GRAY. And your address?

Mr. SACHS. Home address?

Mr. GRAY. Yes, please.

Mr. SACHS. 1125 Fifth Avenue, New York City.

Mr. GRAY. You are a member of the stock exchange house of Goldman & Sachs?

Mr. SACHS. Goldman, Sachs & Co.

Mr. GRAY. Goldman, Sachs & Co. You are also connected in an official capacity with the Goldman-Sachs Trading Corporation?

Mr. SACHS. I am.

Mr. GRAY. And what is your capacity with that corporation?

Mr. SACHS. I am president. Have been president of that corporation since June, 1930.

Mr. GRAY. What is the association or connection of Goldman, Sachs & Co. with the Goldman-Sachs Trading Corporation?

Mr. SACHS. The Goldman Sachs Trading Corporation is an investment company, and there is a management contract between the firm and the investment company whereby the firm, subject to the by-laws of the corporation, manages the corporation, subject to its board of directors.

Mr. GRAY. I am directing your attention, Mr. Sachs—

Senator COUZENS. Before you ask him that question. Mr. Gray, may I ask Mr. Sachs who owns these two companies?

Mr. SACHS. Goldman Sachs & Co. is a partnership.

Senator COUZENS. Who are the partners?

Mr. SACHS. The partners are Arthur Sachs, Howard J. Sachs, Henry S. Bowers, Sidney J. Weinberg, Ernest Loveman, and myself, who are the general partners. There are two special partners, Samuel Sachs and Harry Sachs.

Senator COUZENS. And who are the Goldman Sachs Trading Corporation?

Mr. SACHS. The Goldman Sachs Trading Corporation is a corporation having approximately 42,000 stockholders.

Senator COUZENS. And the Goldman Sachs Trading Corporation manage the Goldman Sachs Co., is that it?

Mr. SACHS. No; it is the other way, sir.

Senator COUZENS. So Goldman Sachs & Co. manage the Trading Corporation, is that it?

Mr. SACHS. Subject to its board of directors. But the majority of the board of directors are composed of partners of the firm.

Senator COUZENS. Did Goldman Sachs & Co. organize the Goldman Sachs Trading Corporation?

Mr. SACHS. Yes, sir.

Senator COUZENS. And it sold its stock to the public?



Mr. SACHS. A portion of it. The firm invested originally in 10 per cent of the entire issue for the sum of \$10,000,000.

Senator COUZENS. And the other 90 per cent was sold to the public?

Mr. SACHS. Yes, sir.

Senator COUZENS. At what price?

Mr. SACHS. At 104. That is the old stock. The present stock at a price of 52, as the stock was split two for one.

Senator COUZENS. And what is the price of the stock now?

Mr. SACHS. Approximately  $1\frac{3}{4}$ .

Senator COUZENS. And what was the purpose of Goldman Sachs & Co. organizing the Goldman Sachs Trading Corporation?

Mr. SACHS. To form a company to trade, deal, and to make investments in securities of various kinds in which companies we, as a firm, participated, and in which others could participate through stock ownership if they so desired.

Senator COUZENS. Well, outside of the partners in Goldman Sachs & Co., how much new capital was taken into the Goldman Sachs Trading Corporation?

Mr. SACHS. Well, I can't answer that figure exactly. The company was formed for \$100,000,000, of which the firm invested \$10,000,000.

Senator COUZENS. And so you went to the public and got \$90,000,000 more?

Mr. SACHS. Yes, sir.

Senator COUZENS. At 104?

Mr. SACHS. At 104. There was \$100,000,000 paid into the company. The stock was bought by Goldman Sachs & Co., and 900,000 shares were sold to the public at 104, less selling commissions to a distributing group, and so forth.

Senator COUZENS. How much is left of that \$100,000,000 that was put into the Goldman Sachs Trading Corporation?

Mr. SACHS. It is difficult for me to answer that question exactly. According to the figures of our last balance sheet as of December 31, 1931, the capital and surplus was \$40,269,100.48.

Senator COUZENS. So the organization, the firm of Goldman Sachs & Co. has lost \$60,000,000 at least of the money that they collected from the public at the time of organization of the Goldman Sachs Trading Corporation?

Mr. SACHS. Well, I do not want to answer that figure exactly, because—

Senator COUZENS. No; I do not ask you to go into dollars and cents.

Mr. SACHS. Well, I will answer your question in this way, that a large sum of money was lost by the stockholders, by all the stockholders, obviously; yes, sir.

Senator COUZENS. And when you fix the net asset of the Goldman Sachs Trading Corporation at some \$40,000,000 have you written down the portfolio of the Goldman Sachs Trading Corporation to present market prices?

Mr. SACHS. We have written them down—these figures are market prices where such market quotations were available. There are certain assets where market quotations are not available and where the assets had to be taken in on some basis, which basis is made perfectly clear in our reports.

Senator COUZENS. Well, when you organized the Goldman Sachs Trading Corporation what did you put into the Trading Corporation's assets that heretofore had belonged to Goldman Sachs & Co. or its partners?

Mr. SACHS. There were only three instances of a negligible amount where we sold a small amount of shares at a considerable number of points under the then market to the Trading Corporation. I haven't those figures, but I know that they are a negligible amount.

Senator COUZENS. Roughly, how much?

Mr. SACHS. Certainly—and allowing for lapse of memory—certainly not more than perhaps \$100,000—perhaps \$200,000 at the very most, and at prices, as I say, under the then quoted stock-exchange prices.

Senator COUZENS. What time was that? At what period?

Mr. SACHS. Oh, I think that was some months after the creation—after the formation of the company, sir.

Senator COUZENS. And when was the company created?

Mr. SACHS. The last days of 1928. Some time the last days of December, 1928.

Senator COUZENS. And when you took these securities that the individual members of your partnership had and put into the corporation, were they put into the corporation at somewhat the intrinsic value or the inflated market value?

Mr. SACHS. Well, they were put in at what we believed were sound values, of course. In fact, under the quoted market prices, because we wanted the corporation to have the opportunity of benefiting in what we thought was a good investment.

Senator COUZENS. In other words, you were so self-sacrificing that you wanted 90 per cent of your stockholders to profit at the expense of 10 per cent of your own investment?

Mr. SACHS. Well, we believed that they were good investments, sir. And, as I pointed out, the amount was negligible.

Senator TOWNSEND. Was your capital structure all common stock?

Mr. SACHS. Of the Trading Corporation; yes, sir.

Mr. GRAY. Now Mr. Sachs, I am directing your attention to a transaction which involved your dealings with what was known as the Postum Co., which afterwards became the General Foods Corporation, in 1929. Do you know the transaction I refer to?

Mr. SACHS. Yes, sir.

Mr. GRAY. Will you tell us just exactly what that transaction was from beginning to end?

Mr. SACHS. The Postum Co. and the Goldman Sachs Trading Corporation acquired a company that was then known as the General Foods Co., now known as the Frosted Foods Co. This company had valuable patents and other assets for a process known as the Birdseye quick freezing process for freezing perishable foods.

Mr. GRAY. That was its only asset?

Mr. SACHS. Well, the process itself—

Mr. GRAY. Yes.

Mr. SACHS. Oh, no; it had other assets. It owned various subsidiary companies, I believe, had a plant in Gloucester, and various assets in Boston at one time and another, sir.

Senator COUZENS. Did it include the Postum Co. at Battle Creek?

Mr. SACHS. Oh, no; sir. The present General Foods Co. was then known as the Postum Co.

Mr. GRAY. That is the present General Foods Corporation; don't get it confused with the General Foods Co., which is an entirely different organization.

Mr. SACHS. I beg your pardon; yes.

Mr. GRAY. Do you know what the investment in General Foods Co. was—that is, the company who owned these patents—when Postum and the Goldman Sachs Trading Corporation negotiated their deal with them?

Mr. SACHS. Well, as I say, I don't know it in detail, because I will ask you to remember that I did not negotiate that transaction at the time; that I was a director of the Goldman Sachs Trading Corporation at the time and not its president, and I may therefore not know as many details as you would like to know.

Mr. GRAY. Do you know that its entire investment at the time that you negotiated with the stockholders thereof for the purchase of their stock, was practically a million and three-quarters of dollars?

Mr. SACHS. Somewhere in the neighborhood; yes.

Mr. GRAY. Somewheres in that neighborhood?

Mr. SACHS. Yes.

Mr. GRAY. All right; now let us start with that. I will lead you a little. We will get through a little quicker that way.

Mr. SACHS. Fine.

Mr. GRAY. Postum Co. had a contract and an arrangement with General Foods Co.—the concern that we are talking about that had a million and three-quarters of dollars of assets—to buy the stock of that company, or rather, it had an agreement with a committee to buy it from the stockholders, that is correct, is it?

Mr. SACHS. Yes; that is correct.

Mr. GRAY. Yes. And Postum Co. agreed to pay for all the stock in that company \$23,500,000, isn't that right?

Mr. SACHS. \$23,500,000.

Mr. GRAY. Yes?

Mr. SACHS. That is to say—I think I might correct your statement—I am not certain of the legal steps; but the Trading Corporation and the Postum Co. agreed to make such purchase for the sum that you have mentioned. The Trading Corporation to pay \$12,750,000 for 49 per cent of the stock and the Postum Co. to pay \$10,750,000 for 51 per cent of the stock.

Mr. GRAY. I will come to those details. But the fact is that the Postum Co. had the contract first and didn't have the money available, that is correct, isn't it? And then the Goldman Sachs Trading Corporation came into the matter with the Postum Co. to put through the agreement as you have indicated?

Mr. SACHS. Well, I wouldn't say that they didn't have the money available, but they decided, no doubt, to issue 150,000 shares of additional Postum stock in order to finance their share of the purchase.

Mr. GRAY. Let's see if we can find out exactly how that was done. The first thing that happened was, was it not, that the Postum Co. sold to the Goldman Sachs Trading Corporation those 150,000 shares of stock in the Postum Co. that you have referred to, for which you paid to them \$10,750,000; is that not correct?

Mr. SACHS. That is approximately correct. I have the exact figures here if you would like to see them.

Mr. GRAY. Well, those are the exact figures. You can rest assured that that is correct.

Mr. SACHS. I will accept your figures.

Mr. GRAY. And then after the Goldman Sachs Trading Corporation acquired 150,000 shares of the Postum Co. for the amount mentioned, then the agreement was put through—the mechanics of it we will speak of in a minute—whereby the Postum Co., which changed its name to General Foods Corporation, and the Goldman Sachs Trading Corporation—the Goldman Sachs Trading Corporation putting up \$12,750,000 in addition—acquired the stock of the General Foods Co. that owned this patent; that is correct, isn't it?

Mr. SACHS. The 150,000 shares, with this exception, that we did have to the extent of 20,000 shares a partner in that acquisition.

Mr. GRAY. That is to say, you had some outside partner in it—in the what?

Mr. SACHS. In the 150,000 shares. We actually purchased 130,000 shares, the Trading Corporation did.

Mr. GRAY. I do not think we are concerned with that in this picture.

Senator GLASS. What did these two companies or corporations acquire for the \$23,000,000?

Mr. GRAY. They acquired, did they not, Mr. Sachs, the stock of this company that had one and three-quarters million dollars invested in it?

Mr. SACHS. Yes, sir.

Mr. GRAY. That is what they acquired?

Mr. SACHS. And had a process that is believed to be of extraordinary value.

Mr. GRAY. Yes. The company, in other words, whose stock you bought had a process. What investigation did the Goldman Sachs Trading Corporation make with respect to that patent? Any?

Mr. SACHS. Yes.

Mr. GRAY. I do not want all the extensive details of it.

Mr. SACHS. No. I can perhaps best quote—I will give you the further details if you like, but I can quote from the then listing statement with regard to the 150,000 shares of stock, in which it is specifically mentioned that both the Postum Co., the present General Foods Corporation, and the Investment Co., which means the Trading Corporation, had made extensive investigations and submitted the proposition and the facts to its respective boards of directors who had approved of the purchase.

Mr. GRAY. In other words, that information is contained in the listing application that was filed with the New York Stock Exchange when the Postum Co. made application to list those other 150,000 shares of stock that that created and sold to you for \$10,750,000?

Mr. SACHS. Correct.

Mr. GRAY. All right.

Mr. SACHS. Which I think is fair to say was approximately the then market price of the Postum Co. stock.

Mr. GRAY. All right.

Senator GLASS. That means, then, that you paid \$23,500,000 for the process, does it?

Mr. SACHS. It means that the two corporations together paid \$23,500,000, of which, however, one and one-half million dollars went into the company as working capital, and they also had assets of one and one-half million dollars, so something less than \$22,000,000 was paid for the process; yes, sir.

Mr. GRAY. Now the fact is, however, that through the mechanics that were employed—you first buying some of the stock of the Postum Co., and, secondly, buying in your own name—not in your own name, but buying for the Goldman Sachs Trading Corporation, a certain percentage of the rest of the stock—all of the money to finance this transaction, \$23,500,000, came out of the treasury of the Goldman Sachs Trading Corporation, didn't it?

Mr. SACHS. Well, about one-half of it came out for 150,000 shares of Postum Co. stock.

Mr. GRAY. Yes; I understand, but it all came out of the treasury of the Goldman Sachs Trading Corporation?

Mr. SACHS. Correct.

Mr. GRAY. Now I want to take that 150,000 shares first and clear that end of it up. Are you familiar with the fact that your books show that that stock was eventually sold by the Goldman Sachs Trading Corporation at a loss of \$230,000?

Mr. SACHS. Well, I do not recall the exact figures; no. I know that in the course of the year—I think in the year it was sold on the market.

Mr. GRAY. All right. That puts that out of the picture. Now, for the \$10,750,000 that the Postum Co. put up they got 51 per cent of the stock?

Mr. SACHS. Correct.

Mr. GRAY. For the \$12,750,000 that the Goldman Sachs Trading Corporation put up they got 49 per cent of the stock?

Mr. SACHS. Correct.

Mr. GRAY. I hand you a paper which I will ask the stenographer to take and mark as an exhibit, and I ask you whether or not that is a correct copy of the agreement made on June 14, 1929, between Postum Co. (Inc.), and Goldman Sachs Trading Corporation with respect to the handling of the affairs of the company that was created thereafter?

Mr. SACHS. That is the contract; yes, sir.

(Agreement dated June 4, 1929, between Postum Co. (Inc.) and Goldman Sachs Trading Corporation was marked "Exhibit 9 of May 20, 1932," and appears in the record at the end of Mr. Sachs's testimony.)

Mr. GRAY. It is a fact—I am summarizing; this will all go in the record—it is a fact that the Postum Co., in addition to getting 51 per cent of the stock, was given preferences—the details I won't bother about, unless you want to go into them—was given preferences with respect to the payment of dividends; was given preferences with respect to the amount to be paid to them in the matter of dissolution of the corporation if it was liquidated; and in addition to that the 150,000 shares of stock that you got and paid \$10,750,000 for was excluded from those preferences, isn't that true?

Mr. SACHS. Well, yes. I think you have to make these additional qualifications—

Mr. GRAY. Go ahead.

Mr. SACHS. That this was an agreement for a 5-year period only. Preferences as to earnings during a 5-year period, which was the period that it was expected would be required to bring this process to a great commercial success. And that was the reason for the preference of earnings to the General Foods Co., plus the fact that the General Foods—that the then General Foods Corporation was to give its time, its experience, its knowledge in the food industry for the management of the business.

Mr. GRAY. Yes. But the fact remains as I have indicated, the amounts were put up as indicated, the proportions of stock divided as indicated, and these preferences were given.

Mr. SACHS. Yes.

Senator GLASS. Was it brought to a great commercial success?

Mr. SACHS. I beg your pardon, sir.

Senator GLASS. Was it brought to a great commercial success?

Mr. SACHS. Not yet. But the 5-year period is not yet up, sir.

Mr. GRAY. Now, then, let us get the method which was followed. What you did was to organize a concern known as Frosted Foods, isn't that correct?

Mr. SACHS. Yes, sir.

Mr. GRAY. Did Frosted Foods take over the stock directly from the stockholders of General Foods Co.?

Mr. SACHS. I don't know whether—what the exact process was, whether they took over the stock or the assets, but in effect they acquired—I presume they acquired the stock of the old company, and in effect—

Mr. GRAY. You presume that. Let me show you how that was done. It is a little complicated. We have looked into it, and we are trying to get it straight. Now, General Foods Corporation and your own company formed this concern known as Frosted Foods Corporation, didn't they? Or Frosted Foods (Inc.)?

Mr. SACHS. Yes, sir.

Mr. GRAY. All right. Then there was another corporation formed in Canada called United Foods (Inc.), wasn't it?

Mr. SACHS. I know nothing about that, sir.

Mr. GRAY. You know nothing about that?

Mr. SACHS. No.

Mr. GRAY. I am afraid we will have to prove it in some other way then. Then there was a third company formed called the United Foods Co. of Delaware, isn't that true?

Mr. SACHS. I know nothing about that, sir.

Mr. GRAY. Never heard of this?

Mr. SACHS. The only way that I heard of the United Foods Co.—I think it is of Canada—was that I happened to have long since seen the voucher checks making payment to the Frosted Foods Co., and know that they were indorsed over to the United Foods Co. That is all I know about it.

Mr. GRAY. Now, isn't it a fact that after the formation of those three companies the first step in the procedure was that the General Foods Co.—that is the Delaware corporation that owned this patent originally—formed a stockholders' committee consisting of certain individuals, and they sold all their outstanding stock in that corporation to the United Foods Co.—the United Foods (Inc.), of Canada?

Mr. SACHS. Well, I don't know this. I am not familiar with that.

Mr. GRAY. All right. We will establish all these things, Mr. Sachs.

Senator COUZENS. Who handled the deals, Mr. Gray? Have you got the record?

Mr. GRAY. We have had the records examined, and we can put Mr. Watson, the accountant, on the stand, who made an examination of these records, to testify to these facts.

And is it not a fact, next, that the United Food (Inc.), of Canada, received in payment for their stock all of the capital stock of the United—I want to get this right myself—sold all the outstanding stock in the Delaware corporation; that is, this General Foods Co., the original company, to the United Foods (Inc.), of Canada, receiving in payment therefor all of the capital stock of the Canadian corporation? In other words, it was an exchange of stock for stock? Do you know that to be correct?

Mr. SACHS. No; I do not know those steps.

Mr. GRAY. You do not?

Mr. SACHS. No, sir.

Mr. GRAY. And is it not a fact then as the second step the Frosted Foods (Inc.) acquired from the Canadian corporation for a cash consideration—that is, this cash consideration of \$22,000,000 that you are talking about—the stock of the General Foods Co. which they in the first instance had purchased from the General Foods Co.?

Mr. SACHS. Well, I know, of course that the Frosted Foods Co. acquired either the stock or the assets.

Mr. GRAY. In some direct or indirect way?

Mr. SACHS. Yes. I do not know what the legal processes were.

Mr. GRAY. Now, then, at that point we have got the Canadian corporation in possession of this \$22,000,000 in cash and the Frosted Foods (Inc.) in possession of the only asset in the case, which is the stock of the original company known as the General Foods Co., that owned this patent. Do you happen to know that your original check for \$10,750,000, which was drawn to the order of Postum Co. (Inc.), was indorsed by them over to Frosted Foods, and then indorsed by Frosted Foods to United Foods (Inc.), of Canada, and then indorsed by United Foods (Inc.) for deposit in the Royal Bank of Canada, and that it was eventually thereafter paid back to the firm of J. P. Morgan & Co. as representing the United Foods of Delaware, the new corporation?

Mr. SACHS. No, sir. I did not know that last step. I have learned recently that these checks, of which I have a photostatic copy here—

Mr. GRAY. All right, let me see them.

Mr. SACHS (continuing). Were indorsed—this is the check for \$10,750,000—there you are, sir—was indorsed over to the Canadian company, but I only learned of that recently.

Mr. GRAY. May I have these for the record?

Mr. SACHS. I will be very glad to let you have them.

Mr. GRAY. All right. Our information comes from the examination of these checks, so I will not bother reading the indorsements again on the back, and we will place them on the record.

(The check of the Goldman Sachs Trading Corporation to Postum Co. (Inc.), dated June 6, 1929, for \$10,750,000, together with the in-

dorsements on the back thereof, was marked Exhibit 6, May 20, 1932, and is here printed in the record in full, as follows:)

EXHIBIT 6, MAY 20, 1932

The Goldman Sachs Trading Corporation

30 Pine Street

No. 22.

*New York, June 6, 1929.*

Pay to the order of Postum Co. (Inc.), \$10,750,000 (ten million seven hundred fifty thousand dollars).

THE GOLDMAN SACHS TRADING CORPORATION,  
SIDNEY J. WEINBERG, *Treasurer*.

To the Manufacturers Trust Co., 139 Broadway, New York. (On reverse side of above.)

Pay to the order of Frosted Foods Co. (Inc.), Postum Co. (Inc.), by J. S. Prescott, vice president; by L. A. Zann, treasurer.

Pay to the order of United Foods (Inc.), Frosted Foods Co. (Inc.), by John S. Prescott, secretary.

For deposit only to credit of United Foods (Inc.), United Foods (Inc.), C. S. Richardson, director; J. F. McCrory, director.

Mr. GRAY. Now your check for \$12,750,000—or rather, there were two checks, divided, one for \$11,250,000 and one for \$1,500,000, isn't that correct?

Mr. SACHS. Correct, sir.

Mr. GRAY. And your first check, if you will let me have it please for \$11,250,000, is indorsed by Frosted Foods (Inc.) It is drawn to the order of Frosted Foods Co. and indorsed by them over to United Foods (Inc.), in Canada, and then taking the same course that the other check did, was deposited in the Royal Bank of Canada.

(The check of the Goldman Sachs Trading Corporation to Frosted Foods Co., dated June 6, 1929, for \$11,250,000, was marked "Exhibit 7, May 20, 1932," and is here printed in the record in full, as follows:)

EXHIBIT 7, MAY 20, 1932

The Goldman Sachs Trading Corporation

30 Pine Street

No. 23.

*New York, June 6, 1929.*

Pay to the order of Frosted Foods Co. \$11,250,000. (Eleven million two hundred fifty thousand dollars).

THE GOLDMAN SACHS TRADING CORPORATION,  
SIDNEY J. WEINBERG, *Treasurer*.

To the Manufacturers Trust Co., 139 Broadway, New York.

(On reverse side of above)

Pay to the order of United Foods (Inc.). Frosted Foods Co. (Inc.), by John S. Prescott, secretary.

For deposit only to credit of United Foods (Inc.). United Foods (Inc.), C. S. Richardson, Director; J. F. McCrory, director.

Mr. GRAY. Now, your check for \$1,500,000, drawn to the order of Frosted Foods Co., was indorsed by them, and then indorsed back to Goldman, Sachs & Co.?

Mr. SACHS. Right.

Mr. GRAY. And deposited by Goldman, Sachs & Co. So that we may save the time of the committee, and no one may get the impression that there is anything improper about this coming back to Goldman, Sachs & Co., it is a sum of money which before the new organization became operative, or before they expected it to become



operative, was idle money, and went back to Goldman, Sachs & Co. for the purpose of allowing them to put it out as call money in order that the money might not be idle and not earning something in the meanwhile. That is correct, is it?

Mr. SACHS. One might make it even clearer.

Mr. GRAY. All right.

Mr. SACHS. That this was a fund that belonged to the Frosted Foods Co.

Mr. GRAY. That was left with you for investment purposes?

Mr. SACHS. That was left with us for temporary investment.

Senator COUZENS. Left with whom?

Mr. SACHS. Goldman, Sachs.

Mr. GRAY. Goldman, Sachs & Co., a member of the New York Stock Exchange.

Senator GLASS. There could be nothing wrong with that, because all the banks and most of the corporations sent their money in on call, didn't they?

Mr. SACHS. Yes.

Mr. GRAY. Yes. I am asking that in fairness so that no improper inference might be drawn from this check.

Senator BROOKHART. Except that the whole thing was improper—banks and all.

Senator COUZENS. I would like to ask the Senator from Virginia if he thinks that the fact that the banks and corporations did it makes it proper?

Senator GLASS. I will put a greater degree of sarcasm in my question next time so that the Senator from Michigan may understand.

Senator COUZENS. Well, being English, of course I am slow at grasping those things.

Mr. GRAY. We have traced this check and find \$1,400,000 of it that went back to the Frosted Foods. The other \$100,000, whether it has been paid back yet or not we do not know.

Mr. SACHS. I think that is incorrect. I know every penny plus interest was paid. The reason was this, Mr. Gray, that the first \$100,000 was immediately repaid. Paid back.

Mr. GRAY. Well, I do not want any improper inferences drawn from that part of it, but it is an incident in connection with it in order that you might get the whole history.

(Check of the Goldman Sachs Trading Corporation to Frosted Foods Co. (Inc.), dated June 6, 1929, for \$1,500,000 was marked "Exhibit 8, May 20, 1932," and is here printed in the record in full, as follows:)

EXHIBIT 8, MAY 20, 1932

The Goldman Sachs Trading Corporation

30 Pine Street

NEW YORK, June 6, 1929.

No. 24

Pay to the order of Frosted Foods Co. (Inc.) \$1,500,000. (One million five hundred thousand dollars.)

THE GOLDMAN SACHS TRADING CORPORATION.

SIDNEY J. WEINBERG, Treasurer.

To the Manufacturers Trust Co., 139 Broadway, New York. (On reverse side of above:)

Pay to the order of Goldman, Sachs & Co., Frosted Foods Co. (Inc.), by L. A. Zahrn, treasurer.

Pay to the order of Manufacturers Trust Co., Goldman, Sachs & Co.

Mr. GRAY. Now, you do not know anything about what happened to that money?

Mr. SACHS. No, sir. You mean the other money?

Mr. GRAY. Any of it except that \$1,500,000?

Mr. SACHS. No, sir; I do not.

Mr. GRAY. All right. Now, after that was done and your concern, the Goldman Sachs Trading Corporation, put \$12,750,000 of its money out for a 49 per cent interest in Frosted Foods, what did you do with that item on your books?

Mr. SACHS. We carried it on our books at cost.

Mr. GRAY. For how long?

Mr. SACHS. Until our balance sheet of December 31, 1930.

Mr. GRAY. That is a year and a half later?

Mr. SACHS. That is a year and a half later.

Mr. GRAY. Yes. Now, I will come back to that, but let me get another incident of that. I think one of the committee asked this question, and I do not know that the question was answered. What has Frosted Foods done since? They have had this proposition for three years?

Mr. SACHS. Yes, sir.

Mr. GRAY. They are still trying to get the thing in shape, aren't they?

Mr. SACHS. I shouldn't put it quite that way. I should say that they have made very real progress in developing the enterprise along successful commercial lines.

Senator COUZENS. Have they made any real money?

Mr. SACHS. Not yet, sir.

Mr. GRAY. Haven't made a cent, have they?

Mr. SACHS. No, sir.

Mr. GRAY. As a matter of fact, the Goldman Sachs Trading Corporation put nearly \$2,000,000—if I am wrong about that figure, correct me—or \$1,750,000—

Mr. SACHS. A million and a half.

Mr. GRAY (continuing). A million and a half dollars into Frosted Foods afterwards for the purpose of development.

Mr. SACHS. Correct.

Mr. GRAY. So that altogether they put, including the money that went in through Postum or General Foods, a matter of approximately \$25,000,000 in this proposition, for which they got 150,000 shares of Postum, that was sold at a loss of about \$230,000, so that that took \$10,750,000 of the investment out of the picture, with the exception of \$230,000, and what you did in the end of 1930 was to charge that off on your books as being worth \$1?

Mr. SACHS. Charged the common stock off. Not the business.

Mr. GRAY. Well, the \$12,750,000 that you put in of this money, of \$90,000,000 that the public invested in the Goldman Sachs Trading Corporation, you charged off at the end of 1930 as being worth \$1?

Mr. SACHS. Well, we set up a reserve.

Mr. GRAY. Why, if this was such a good company?

Mr. SACHS. I can answer that best in the following way, by quoting, if I may, from our report at the end of the year, dated January 31, 1931.

Mr. GRAY. Certainly.

Mr. SACHS (reading):

The corporation's investments and its interests in syndicate and joint accounts have been taken at market values at December 31, 1930, which were lower than cost in so far as adequate market quotations were available. It has been the practice in the corporation's previous reports to value at cost a number of important investments for which no adequate market quotations are available. The largest investment of this type is Frosted Foods Co. (Inc.). On the appended balance sheet the stock in this company has in the interest of conservatism been written down to \$1, although no change in the progress of the enterprise requires this reserve, and its development may establish a substantial value for it.

I want to say this in addition, that in consultation with our accountants, leading accountants in this country, with Price, Waterhouse & Co., we found that there was no place, according to good accounting practice, that we could stop in between cost and \$1. We had long conferences with them. We decided that conditions had changed in the interim period in the world in general. That we did not want to create the impression of inflated values, and as there was no place to stop between cost and \$1, we set up the reserve bringing down the value of the stock to \$1, making the explanatory statement, however, which I just read.

Mr. GRAY. Now, you did that in that way because you still felt that the investment had a value?

Mr. SACHS. Yes, sir.

Mr. GRAY. But you could not fix the value of it?

Mr. SACHS. Exactly.

Mr. GRAY. All right. Now, then, the next step that you made, however, was at the end of the ensuing year, 1931?

Mr. SACHS. Yes, sir.

Mr. GRAY. Had, in your opinion, the value of Frosted Foods stock changed any in that year?

Mr. SACHS. It was impossible to say exactly.

Mr. GRAY. It was still in that same situation that though you had made a thorough investigation of it, that you thought justified an investment of \$12,750,000—

Mr. SACHS (interposing). In 1929.

Mr. GRAY (continuing). In 1929—at the end of 1930 and at the end of 1931 you still did not know what its real value was?

Mr. SACHS. Could not determine it exactly in dollars and cents.

Mr. GRAY. All right. What you did at the end of 1931 was to take that 49 per cent of the stock of the Frosted Foods (Inc.), which represented your \$12,750,000 investment and which you had written down to a dollar, and which was represented by 14,700 shares—

Mr. SACHS. Correct.

Mr. GRAY (continuing). Of the Frosted Foods stock and turned that over to General Foods Corporation for 30,000 shares of their stock, which was then selling on the market at \$30 a share?

Mr. SACHS. Correct; approximately.

Mr. GRAY. Correct. That made your investment worth \$900,000?

Mr. SACHS. Correct.

Mr. GRAY. And then you had something that you were able to fix a definite value?

Mr. SACHS. Correct.

Mr. GRAY. If you thought Frosted Foods had such a brilliant future in connection with this patent which justified you in putting \$12,750,000 of this public's money into the proposition, even though

you had written it down, why did you turn it back for \$900,000, thus sustaining a loss in that particular situation of just \$11,850,000?

Mr. SACHS. For quite a different reason, sir.

Mr. GRAY. Well, just tell it to us.

Mr. SACHS. That the corporation had bank loans which in 1929 seemed negligible.

Mr. GRAY. Go ahead.

Mr. SACHS. Bank loans that seemed negligible in 1929. With the change in world conditions by the end of 1930 it seemed unwise to put any additional funds into what might be called an illiquid asset.

Mr. GRAY. In other words, you came to the conclusion that it might not be worth as much as you thought it was—

Mr. SACHS. No, sir; I do not agree with that.

Mr. GRAY. All right. That you did not want to put any additional money into it to finance the venture any further, and you wanted to take a definite position even though there was registered upon your books and in these transactions a definite loss?

Mr. SACHS. Quite right. In other words, we thought because of general conditions it was wisest not to put in any additional funds for the further commercial development of this enterprise, and that it was wisest to take 30,000 shares of General Food stock that was good collateral for bank loans and a quick asset.

Mr. GRAY. Now I think that is all I want to ask Mr. Sachs, but I want to say to the committee two things. First, that when this matter came to our attention we made our investigation. We got this information. And I felt, as I have acted with respect to all of these matters, that Mr. Sachs should have an opportunity—though I could have presented the facts to you in a little different way, I mean by presenting the testimony as to the occurrences—so I gave him the opportunity to come here to say anything that he wanted to say to the committee about the transaction.

One thing more I want to say—

Senator COUZENS. Before you go. Was the Goldman Sachs Trading Corporation stock on the New York Stock Exchange?

Mr. SACHS. No, sir; it was on the curb exchange. May I say just another word?

Mr. GRAY. Yes.

Mr. SACHS. I think in justification perhaps with respect to something that Senator Glass said that I should say that in the brief for the United States in the packers' case, the Government makes this reference to the Birdseye process:

With the development of quick freezing, patents for the first time will play an important rôle in the meat-packing industry. The best-known process is the Birdseye, owned by General Foods Corporation, for which the company paid \$22,000,000.

I only mention that to show that many people think that this may prove a very revolutionary and profitable enterprise.

Mr. GRAY. Well, if I can avoid getting into a long dissertation, Mr. Sachs—

Senator BROOKHART. Well, since that is charged down, that \$22,000,000 is an excessive statement, is it not?

Mr. SACHS. I beg your pardon?

Senator BROOKHART. Since that is charged out, that \$22 000,000 is an excessive statement?

Mr. SACHS. Well, that may be. Nobody can look into the future.

Senator GLASS. Did you suppose the court before delivering that opinion very critically examined into this matter?

Mr. SACHS. I do not know, sir.

Senator GLASS. And learned very definitely that that is true?

Mr. SACHS. I do not know about that, sir.

Mr. GRAY. If I can avoid by my question a long dissertation on this patent, I will ask just this: The difference between this patent and other patents for freezing food products is this, that this thing does it quicker?

Mr. SACHS. Well, we think it does it quicker and better.

Mr. GRAY. Quicker and better. Now, one other thing I would like to say to the committee.

Senator BROOKHART. Let me ask a question. What is the difference between the curb exchange and the stock exchange?

Mr. SACHS. Well, the New York Stock Exchange is one body, usually referred to as the stock exchange, and there is another exchange on which stocks are traded in that are not listed on the New York Stock Exchange, which is known as the New York Curb Exchange. There are just two exchanges.

Senator BROOKHART. Are they under the same kind of rules and regulations?

Mr. SACHS. I am not sufficiently familiar with the rules to know whether they are exactly the same or not.

Senator BROOKHART. Well, this curb, as they call it, has a place of business the same as the other?

Mr. SACHS. It now has a building. It did not years ago.

Mr. GRAY. It used to operate on the street, Senator, on Broad Street up there, but it now has a building of its own.

Senator BROOKHART. And it transacts a large volume of business, but not as much as the big exchange?

Mr. SACHS. No; not as much, but a large volume.

Senator BROOKHART. And very much on the same rules? It kind of follows the methods of the other exchange?

Mr. SACHS. I think so. As I say, I am not familiar with it.

Senator BROOKHART. Well, did you sell any of these stocks through the curb?

Mr. GRAY. All of them through the curb, Senator.

Mr. SACHS. Yes; the Goldman Sachs Trading Corporation is listed on the curb.

Senator BROOKHART. The Goldman Sachs Trading Corporation is listed on the curb?

Mr. SACHS. Yes.

Senator BROOKHART. So they have a listing scheme as well as the other exchange?

Mr. SACHS. Yes.

Senator BROOKHART. All right.

Mr. GRAY. The other thing I wanted to say to the committee is that we are tracing this fund of \$22,000,000 that went into the Canadian corporation's hands and from them back to J. P. Morgan & Co. as representing United Foods (Inc.), for the purpose of finding what the distribution is. Up until the time the matter was brought here to the attention of the committee we have not been able to complete that, but we believe that there may be some facts that

the committee will be interested in, and in addition to that, believe that we may be able to show that the tax question had something to do with the question of United Foods (Inc.), of Canada, and why they used it.

That is all I want to ask Mr. Sachs.

MR. SACHS. I am through, I suppose?

MR. GRAY. Yes.

Senator COUZENS. Does this witness know anything about that Canadian transaction?

MR. GRAY. Well, I have examined him to-day, Senator, and he has told us all he knew.

Senator GLASS. Which was nothing.

MR. GRAY. Which was nothing.

MR. SACHS. Is that all?

MR. GRAY. Yes. In order that there might be no hiatus in this record—and I do not think it is necessary to more than make a statement—I desire to state that the investigation that was made of this matter establishes the existence of the facts that were incorporated into my questions of Mr. Sachs as to the method by which it was done and the amounts paid, and he has conceded what his books show with reference to the ultimate closing of the transaction thereon.

(The agreement dated June 4, 1929, between Postum Co. (Inc.) and Goldman-Sachs Trading Corporation, heretofore marked "Exhibit 9 of May 20, 1932," is here printed in the record in full, as follows:)

AGREEMENT MADE THIS 4TH DAY OF JUNE, 1929, BETWEEN POSTUM CO. (INC.), HEREINAFTER KNOWN AS POSTUM, AND GOLDMAN SACHS TRADING CORPORATION, HEREINAFTER KNOWN AS TRADING CORPORATION

The parties agree with each other as follows:

1. Postum agrees to sell to the Trading Corporation and the Trading Corporation agrees to buy 150,000 shares of the common stock of Postum without nominal or par value for \$10,750,000 cash.

2. The parties hereto agree to organize or cause to be organized a corporation under the laws of the State of Delaware, to be known as Frosted Foods Co. (Inc.), or some other appropriate name, with a capital stock of 30,000 shares having a par value of \$100 per share, for the purpose of taking over all the capital stock of the General Foods Co., a corporation organized and existing under the laws of the State of Delaware. In order to provide the new corporation with the funds to purchase said stock and as working capital, Postum agrees to subscribe for 15,300 shares of capital stock of said Frosted Foods Co. (Inc.) and pay therefor \$10,750,000, and the Trading Corporation agrees to subscribe for 14,700 shares of the capital stock of said company and pay therefor the sum of \$12,750,000. Postum agrees to manage the business of Frosted Foods Co.

3. It is understood and agreed that the name of the General Foods Co. shall be changed and that Postum may change its name to General Foods Co. or Corporation, or use that name for any of its present or future subsidiaries.

Postum shall have complete charge and supervision of the business of the new company during the period of this contract (which term when used in this instrument means the period up to January 1, 1935). It is expected that Postum will continue the present business of General Foods Co. under Frosted Foods Co. and extend the same, but it is also understood that Postum may find it desirable for the general interest or otherwise to exploit the patents and processes acquired by Frosted Foods Co., and Postum shall have the right, for the period of the contract, to have any of its subsidiaries, present or future, use the patents and processes of the Frosted Foods Co. without the payment of royalties to the said company and may grant to other persons or corporations the right to use such patents or processes for the period of the contract upon

such terms and conditions as Postum may deem proper which need not include royalties to the Frosted Foods Co.

4. During the period of the contract neither party hereto will sell, part with, pledge, or offer to any other person, firm, or corporation any interest in any of the stock of Frosted Foods Co., but each will retain its stock therein free and clear except in so far as the other may otherwise consent in writing. During the period of the contract no additional stock shall be issued by Frosted Foods Co. without the consent of both parties hereto.

5. The net profits of Frosted Foods Co. applicable to the payment of dividends earned during the period of the contract shall be deemed to accrue to the parties hereto as follows:

In each year there shall be determined the amount which Postum earned per share on its common stock in that year; for this purpose there shall be taken its consolidated net profits applicable to the payment of dividends, in accordance with good accounting practice (its annual published statement of earnings shall be deemed *prima facie* to be in accordance with good accounting practice) and from this amount shall be deducted any profits from Frosted Foods Co. (Inc.); there shall also be employed for this purpose the weighted average number of shares of Postum outstanding during the year, less 150,000 shares. The net earnings per share, less 150,000 shares, as so determined shall be multiplied by 150,000, and to the extent of the resulting figure the net profits of Frosted Foods Co. for that year applicable to the payment of dividends shall accrue to and be credited to Postum. Any further of such net profits of Frosted Foods Co. for the year shall accrue to the Trading Corporation until the amount accrued to the Trading Corporation shall equal the amount per share as was first accrued to Postum, and any remaining of such net profits in the year shall accrue to the two parties in proportion to their stock interests. When Frosted Foods Co. pays dividends the amounts paid shall be divided between the parties in accordance with the foregoing.

6. If Frosted Foods Co. shall be dissolved and its business and affairs terminated and liquidated (as contrasted with a reorganization, consolidation, sale as a going business, etc.), its net assets shall be divided between the parties as follows:

From the total net tangible assets of the Postum Co., determined from its next preceding audited consolidated balance sheet, there shall be deducted the value of its stock in Frosted Foods Co. (Inc.), at the figure at which it is therein included, and the balance shall be divided by the number of shares of common stock of the Postum Co. as of the date of that balance sheet, less 150,000 shares. The amount so arrived at shall be multiplied by 150,000, and to the extent of the resulting figure so reached the net assets of Frosted Foods Co. (Inc.) shall first go to the Postum Co. The Trading Corporation shall then receive from the net assets an amount equal, per share, to the amount received by Postum as above provided, and the remaining assets shall be divided between the two parties in accordance with their stock interests. Tangible assets shall be taken to mean, all assets except patents, trade-marks, good will, and other similar assets.

7. Postum shall have an option to purchase from the Trading Corporation its stock in the Frosted Foods Co. for a period up to April 1, 1935, after the ending of the period of the contract—namely, January 1, 1935—by issuing to the Trading Corporation the number of shares of Postum determined in the following manner (subject to the minimum limitation hereinafter set forth):

There shall be first ascertained the consolidated net profits of Postum for the year 1934 applicable to the payment of dividends on its common stock (to which figure shall be added all of the net profits of Frosted Foods Co. for that year not otherwise included therein).

There shall next be determined the amount of such profits as were earned by or were attributable to Frosted Foods Co., its business, patents, processes, etc., including all of the net profits of Postum (on a consolidated basis), fairly attributable to the use of the patents and processes of Frosted Foods Co., to which shall be added all of the net profits of Frosted Foods Co. for that year not otherwise included therein.

The first figure is denominated (a) and the second (b); (b) shall then be subtracted from (a) and the remainder shall be divided by the weighted average number of shares of Postum outstanding during the year 1934, less 150,000 shares; (b) is then divided by that quotient; and the number of shares that the Trading Corporation shall receive is 49 per cent of the resulting figure. By way of illustration, if (a) is \$31,000,000 and (b) is \$3,000,000, and the weighted

average number of shares outstanding is 4,150,000, then \$28,000,000 would be divided by 4,000,000, giving 7; then \$3,000,000 would be divided by 7, giving 428,571, and the Trading Corporation would be entitled to receive 49 per cent of 428,571, or 271,000 shares of Postum stock.

The figure denominated (a) shall be that determined by Price Waterhouse & Co. If the parties can not agree on the figure (b), then the determination thereof shall be left to the senior partner of Price Waterhouse & Co. at the time, and his determination shall be final and binding. In making such determination he shall give due consideration to executive effort by way of production, advertising, selling, and administrative experience on the part of Postum Co. and of the Trading Corporation. Proper adjustments shall be made for prepaid or deferred royalties or other compensation.

The Trading Corporation may, if it elects, choose as a test period in place of 1934 any calendar year during the period of the contract; and in that event the number of shares shall be determined in accordance with the foregoing formula, with the following adjustments, viz. figure (a) shall first be ascertained, as hereinbefore provided, for the year 1934, and from that amount there shall be deducted all net profits of Frosted Foods Co. for that year, and there shall be added thereto all of the net profits of Frosted Foods Co. for the year selected by the Trading Corporation. The figure denominated (b) shall be determined as hereinbefore provided, but with respect to the year selected by the Trading Corporation. The adjusted figure (a) and the figure (b) shall be used in accordance with the foregoing formula. The weighted average number of shares (less 150,000) of Postum shall be taken for the year 1934.

If the parties hereto should decide that Frosted Foods shall be operated as a separate and independent corporation, and in fact it shall so operate it that it receives compensation approved by all the directors of Frosted Foods Co. (Inc.), for the use of its assets, then and in that event the number of shares of Postum for which Postum shall have the option to purchase the Trading Corporation stock in Frosted Foods (subject to the minimum limitation hereinafter set forth) shall be determined in the following manner: The figure denominated (a) in the foregoing formula shall remain unchanged; the figure denominated (b) shall be the total net profits of Frosted Foods Co. (Inc.); and the balance of the formula shall be applied. The figure shall then be taken for the year 1934 unless the Trading Corporation elects to have some year other than 1934 taken, in which case adjustment shall be made as hereinbefore provided.

8. The foregoing is subject to the limitation that the number of shares of Postum to be received by the Trading Corporation shall not be less than that determined in the following manner: Trading Corporation's original investment in Frosted is taken at \$12,750,000. To this shall be added any additional investments made by the Trading Corporation in Frosted Foods Co. and interest at the rate of 10 per cent per annum thereon from June 1, 1929 (or the later date of investment) to December 31, 1929, and there shall be subtracted therefrom the amount of cash dividends of Frosted received by the Trading Corporation during that period. The balance shall be carried over as the starting figure of the next year, and similarly it shall be increased by any additions to capital and by interest at 10 per cent per annum on the opening figure plus additional investments from the time made, and minus the cash dividends received by the Trading Corporation. This calculation shall be carried forward similarly year by year to December 31, 1934. The net resulting figure as of that date shall be divided by the weighted average selling price of Postum stock on the New York Stock Exchange during the months of October and November, 1934, and the quotient shall be the minimum number of shares issuable to the Trading Corporation upon the exercise of the option.

9. Postum shall advise the Trading Corporation in writing not later than December 1, 1934, whether it intends to exercise its option, and failure to give by that time a written notice of election to exercise shall be deemed to be an election not to exercise the option.

10. It is understood that the Trading Corporation is to have at least three directors on the board of directors of the Frosted Foods Co.

11. If Postum shall fail to exercise the option, then (a) Postum shall be entitled to receive the amounts credited to it in accordance with the provisions of paragraph 5 to the extent that Postum shall not then have received the same, and the Trading Corporation shall be entitled to receive a sum equal to the same amount per share (but only to the extent that the same shall have been earned) as Postum has theretofore received or by the foregoing payment will receive, but only to the extent that the Trading Corporation shall not then have received the same; and Frosted Foods shall declare a dividend to



the extent necessary to cover the foregoing. If Frosted Foods, in the judgment of the directors, is not in a position to pay the foregoing dividends in cash, then they may, in whole or in part, pay such dividends in short term or long term interest-bearing obligations of the corporation.

(b) Beginning with January 1, 1935, the provisions herein contained with respect to the Frosted Foods Co. shall cease and determine, and that company from that time on shall be operated as a separate and independent corporation and shall be entitled to receive reasonable royalties for the use of its patents and processes. If the amount of reasonable royalties is not agreed upon between the parties, it shall be determined by arbitration; and when a rate of reasonable royalty has been agreed upon it shall then be computed to the date that this agreement becomes effective and computation shall be made of the additional net profits that would have been made by Frosted Foods Co. had such royalties then been effective, and the Trading Corporation shall then be entitled to receive 49 per cent of that amount by receiving all of the dividends paid on Frosted Foods stock until the amount it thus received equals such 49 per cent.

12. Frosted Foods Co. (Inc.) may amortize the patents and patent rights owned and to be owned by it over the life thereof in accordance with good accounting practice, but for all purposes of this agreement as between the parties such amortization of patents shall not be deemed to be a deduction from income. Dividends as referred to herein shall be deemed to include dividends out of paid-in or initial surplus as well as earned surplus.

Wherever in paragraphs 5, 6, and 7 hereof there is used "150,000 shares" or provision is made for multiplication by 150,000, that amount shall be increased proportionately in the event that the stock of the Postum Co. is split up or stock dividends are paid thereon, unless the stock dividends aggregate not to exceed 10 per cent in any one year.

In witness whereof, the parties hereto have caused their respective corporate seals to be hereunto affixed and these presents to be signed by their respective duly authorized officers the day and year first above written.

POSTUM CO. (INC.),  
By C. M. CHESTER, *President*.  
GOLDMAN SACHS TRADING CORPORATION,  
By SIDNEY WEINBERG, *Treasurer*.

STATE OF NEW YORK,  
*County of New York, ss:*

On this 4th day of June, 1929, before me personally came C. M. Chester, jr. to be known, who, being by me duly sworn, did depose and say that he resides at Greenwich, Conn.; that he is the president of Postum Co. (Inc.), the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation; and that he signed his name thereto by like order.

[SEAL.]

HAROLD B. SMITH.

STATE OF NEW YORK,  
*County of New York, ss:*

On this 4th day of June, 1929, before me personally came Sidney Weinberg, to me known, who, being by me duly sworn, did depose and say that he resides at Scarsdale, N. Y.; that he is the treasurer of Goldman Sach Trading Corporation, the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation, and that he signed his name thereto by like order.

[SEAL.]

WM. R. RASQUIN.

Mr. GRAY. Is Mr. Norman Bolles here?

Mr. HANSELL. He was here last night, Mr. Gray. He stayed over in Washington. He was to have been here to-day.

Mr. GRAY. All right. Mr. Hansell, will you take the stand?

**TESTIMONY OF HOWARD F. HANSELL, JR., NEW YORK CITY**

Mr. GRAY. Will you stand up and be sworn, Mr. Hansell?

Senator GLASS (presiding). You swear that the testimony you shall give in this case will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HANSELL. Yes.

Mr. GRAY. State your name.

Mr. HANSELL. Howard F. Hansell, jr.

Mr. GRAY. Mr. Hansell, where do you live?

Mr. HANSELL. 1 University Place, New York City.

Mr. GRAY. And what is your business?

Mr. HANSELL. I am an independent speculator.

Mr. GRAY. On the exchange?

Mr. HANSELL. No.

Mr. GRAY. Well, in what way?

Mr. HANSELL. For my own account.

Mr. GRAY. Well, for your own account, but you mean in connection with stocks that are bought and sold on the New York exchanges?

Mr. HANSELL. Stocks and bonds on the New York exchanges and other exchanges and over the counter.

Mr. GRAY. So that we may understand the expression "over the counter," that means where sales are made privately without going through a market such as the Curb or the New York Stock Exchange?

Mr. HANSELL. Where they are not listed on either of those exchanges.

Mr. GRAY. Where they are not listed on either of those exchanges. Were you ever a member of the New York Stock Exchange?

Mr. HANSELL. No. I was a member of a firm that was a member of the New York Stock Exchange.

Mr. GRAY. That was Hansell & Co.?

Mr. HANSELL. That was Redmond & Co.

Mr. GRAY. That was Redmond & Co. How long ago has that been?

Senator BROOKHART. One question there. You said where they were not listed on the exchange. Do you sell any listed stocks over the counter?

Mr. HANSELL. Yes; occasionally.

Mr. GRAY. And how long since you were connected with Redmond & Co.?

Mr. HANSELL. About 10 years.

Mr. GRAY. I direct your attention to the early part of 1930 and ask you whether at that time you become interested in Indian Motorcycle Co. stock?

Mr. HANSELL. Yes.

Mr. GRAY. And were you or were you not in any way affiliated with that company?

Mr. HANSELL. I was not.

Mr. GRAY. Did you at that time know the brokerage house of H. Content & Co.?

Mr. HANSELL. I did.

Mr. GRAY. And did you know Mr. H. Content personally?

Mr. HANSELL. Yes.

Mr. GRAY. What was the first transaction that you had with respect to Indian Motorcycle Co. stock?

Mr. HANSELL. My firm, which was then Hansell & Co., purchased 40,000 shares of stock from the Indian Motorcycle Co.

Mr. GRAY. Now, Hansell & Co. was yourself, was it not?

Mr. HANSELL. Yes.

Mr. GRAY. And when you say "purchased," do you mean that you bought that stock outright from the Indian Motorcycle Co., or do you mean that you secured an option on it?

Mr. HANSELL. I mean that we purchased it outright.

Mr. GRAY. And paid for it?

Mr. HANSELL. We paid for it over a period of time.

Mr. GRAY. Well, did you pay anything when you first got it?

Mr. HANSELL. Forty thousand shares of stock was sold to us for \$200,000.

Mr. GRAY. I did not ask you that. I asked you whether you paid anything for it when you first got it?

Mr. HANSELL. I am trying to answer that question.

Mr. GRAY. Yes.

Mr. HANSELL. A credit was opened on our books for the benefit of Indian Motorcycle Co. for \$200,000, part of which they drew at once.

Mr. GRAY. How much?

Mr. HANSELL. \$20,000 the first day, as I recall it.

Mr. GRAY. All right. Now, that was at \$5 a share?

Mr. HANSELL. Yes.

Mr. GRAY. And with whom in the Indian Motorcycle Co. did you make those arrangements, or with whom did you arrange that transaction?

Mr. HANSELL. There was a man named Charles E. Mitchell, who was the vice president.

Mr. GRAY. Yes.

Mr. HANSELL. He was in charge of the finances of his company.

Mr. GRAY. And did you know at the time that you bought that stock at \$5 per share that the Indian Motorcycle Co. was then bankrupt and virtually ready to be in the hands of the receiver?

Mr. HANSELL. I did not.

Mr. GRAY. Do you mean to tell me that the officers of the Indian Motorcycle Co. did not say to you that unless you can take this 40,000 shares of stock and market it that we are through?

Mr. HANSELL. I don't remember them saying that to me.

Mr. GRAY. Well, what was it in that connection that they did state to you?

Mr. HANSELL. They needed money for working capital.

Mr. GRAY. That is all they told you?

Mr. HANSELL. Yes. They presented me a balance sheet as of September, which was less than three months prior to that time, which covered current assets and liabilities of the company.

Mr. GRAY. Didn't you know the company was broke?

Mr. HANSELL. No.

Mr. GRAY. You didn't? What did you do with that stock?

Mr. HANSELL. I sold it to individuals, partly on the exchange, partly off the exchange.

Mr. GRAY. You sold it principally through H. Content & Co., a brokerage house, did you not?

Mr. HANSELL. A large part of it was sold through them.

Mr. GRAY. You sold it at what price? General range? I don't mean the details.

Mr. HANSELL. Some of it was sold at \$4 per share.

Mr. GRAY. Yes?

Mr. HANSELL. And it was sold, I would say, from \$4 to \$11 or \$12.

Mr. GRAY. And then you bought and sold it in order to keep the market going?

Mr. HANSELL. Yes.

Mr. GRAY. Yes. We have seen other instances of that, and I won't go into that in detail. And who else besides yourself was interested in that 40,000 shares of stock?

Mr. HANSELL. I had probably 20 or 30 people to whom I sold stock and gave options on the stock, so that they would interest their friends and clients in purchasing the stock.

Mr. GRAY. Yes. Did Mr. Content have an interest in that 40,000 shares?

Mr. HANSELL. He did not.

Mr. GRAY. None whatever?

Mr. HANSELL. I can't remember any.

Mr. GRAY. You can't remember any. Did you have a joint account with Mr. Content on his books?

Mr. HANSELL. I have had joint accounts, but not—I remember no joint account in Indian Motorcycle on his books.

Mr. GRAY. Did you give him any options on your stock?

Mr. HANSELL. On those 40,000 shares?

Mr. GRAY. Yes.

Mr. HANSELL. No.

Mr. GRAY. None whatever. You then got an option for 60,000 shares after you disposed of the 40,000, didn't you?

Mr. HANSELL. I agreed to purchase 60,000 shares.

Mr. GRAY. All right, we will call it an agreement to purchase. And you marketed that in the same way, didn't you?

Mr. HANSELL. Yes.

Mr. GRAY. And during the time you were marketing that, did Mr. Content have an interest in it?

Mr. HANSELL. Yes.

Mr. GRAY. Who else that was connected with the Indian Motorcycle Co. had an interest in it? Did Mr. Mitchell have an interest in it?

Mr. HANSELL. Personally; no.

Mr. GRAY. What do you mean by "personally; no"?

Mr. HANSELL. For his personal account he had no interest in it, so far as I know.

Mr. GRAY. Well, did he have an interest in it for any other account?

Mr. HANSELL. I don't think so.

Mr. GRAY. Why did you use the word "personal," then? Why didn't you just say, "No"?

Mr. HANSELL. Well, he was interested in its marketing because he was the vice president of the company.

Mr. GRAY. That was his only interest?

Mr. HANSELL. So far as I know.

Mr. GRAY. Did you give Mr. Content an option——

Mr. HANSELL. I may modify that. Mr. Mitchell purchased stock from us and sold stock through us for his own account.

Mr. GRAY. In other words, Mr. Mitchell entered into the stock transactions?

Mr. HANSELL. Traded in the stock.

Mr. GRAY. Traded in the stock.

Senator BROOKHART. That was just washing sales back and forth to make a market, was it not?

Mr. HANSELL. No; he was trying to make money for himself and his friends.

Senator BROOKHART. Well, they do that in the washing of sales business?

Mr. HANSELL. I don't think there was any washing of sales, Senator.

Mr. GRAY. How much of a call or an option did you give to Content out of that 60,000 shares?

Mr. HANSELL. I gave an option on 25,000 shares at \$7.50 per share to Lawrence R. Wilder, who directed me to give that option for his account to Content—to make the option to Content.

Mr. GRAY. How much of that 25,000 shares did Wilder and Content take up?

Mr. HANSELL. I think they took practically the whole amount.

Mr. GRAY. All right. Now, was your trading in this stock through H. Content & Co.?

Mr. HANSELL. Partly.

Mr. GRAY. Was it through any other house at all?

Mr. HANSELL. Yes.

Mr. GRAY. What house?

Mr. HANSELL. Morrison & Townsend.

Mr. GRAY. Yes.

Mr. HANSELL. Montgomery & Co. Tully, Monteith & Mitchell. I think Hayman & Co. Bridgeman, Bates & Co. Several others.

Mr. GRAY. You told me a few minutes ago that you made this arrangement with a man named Charles E. Mitchell, who was vice president of Indian Motorcycle. I ask you now again, did you not make that arrangement with Norman T. Bolles, the president of the company, when you made your arrangement to purchase the 40,000 shares?

Mr. HANSELL. My recollection is that Mitchell came in first and made the arrangements, and Bolles later appeared, and I imagine Mr. Bolles signed the contract. I have the copies here.

Mr. GRAY. All right. Did Bolles tell you at the time that he made the arrangement with you—I think possibly he used this expression that “the sheriff is sitting here waiting for us”?

Mr. HANSELL. I don't think he used any such expression.

Mr. GRAY. You don't think he told you that. I ask you whether or not you have not been called upon to explain this transaction before?

Mr. HANSELL. Yes.

Mr. GRAY. And whether you did not say when you were asked this question about the 40,000 shares—I will give you the first question, so that you can get the context:

Question. Your first item on December 31 shows a purchase by you of 40,000 shares of this stock, for which you paid \$200,000; is that correct?

Answer. Yes.

Mr. HANSELL. Yes.

Mr. GRAY. And then I ask you whether you were not asked this question and made this answer:

Question. Pursuant to an arrangement with somebody?

Answer. Yes; with the president of the Indian Motorcycle Co., Norman T. Bolles.

Wasn't your arrangement entirely with Bolles?

Mr. HANSELL. It wasn't entirely with Bolles. As I remember it, Mr. Mitchell came in first, before I saw Bolles.

Mr. GRAY. All right. Now, I ask you whether or not it is true that after you put through these two deals respecting 40,000 and 60,000 shares of stock you knew that Mr. Wilder, whom you have named—what was his name?

Mr. HANSELL. Lawrence R.

Mr. GRAY. Lawrence R. Wilder went to England with an authority to purchase a Diesel engine over there, or the rights to the Diesel engine in the United States, and to pay for it, for the Indian Motorcycle Co. with 50,000 shares of their common stock?

Mr. HANSELL. I don't know whether the amount was fixed before he went, because it was the subject for negotiation. He went there to negotiate that purchase.

Mr. GRAY. Were you interested in that?

Mr. HANSELL. In the commission that he might receive?

Mr. GRAY. In the transaction of that purchase?

Mr. HANSELL. Yes.

Mr. GRAY. In what way were you interested?

Mr. HANSELL. I was to receive a part of the profits which he made, if he made any.

Mr. GRAY. Which Wilder made?

Mr. HANSELL. Yes.

Mr. GRAY. I ask you whether or not it is a fact that Wilder made that deal in England for the Indian Motorcycle Co. for not more than 21,500 shares of that stock, and whether the rest of the stock was not sold through H. Content & Co. and the money divided between you, Content, Wilder, Mitchell, and Bolles?

Mr. HANSELL. I don't think that was true, Mr. Gray.

Mr. GRAY. How much of it is not true?

Mr. HANSELL. I know that Mr. Coatelen, who sold these patents, received a very large amount in cash.

Mr. GRAY. From whom?

Mr. HANSELL. From Mr. Wilder.

Mr. GRAY. How much?

Mr. HANSELL. Approximately \$100,000. May have been a little more. May have been a little less.

Mr. GRAY. Did you put the deal through?

Mr. HANSELL. No.

Mr. GRAY. Where is Wilder, do you know?

Mr. HANSELL. I do not.

Mr. GRAY. I will say to the committee that we have even sent men to Boston to find him.

Mr. HANSELL. I saw him a month ago. I should not think he would be very hard to find. I have seen him probably every two months for the last two or three years.

Mr. GRAY. Well, I asked you the other day where we could find him.

Mr. HANSELL. Yes. Well, he was working for the city of Boston, or the Port Authority of Boston.

Mr. GRAY. That is what you told me.

Mr. HANSELL. Yes.

Mr. GRAY. I will say to the committee that we sent a man there and found that that was not so, and we could not locate him.

Mr. HANSELL. He had been. Mr. Gray, you did not find that he had not been.

Mr. GRAY. I can not answer that. I will answer you fairly that I can not say whether he had been there, but he could not be found there now.

Mr. HANSELL. I only told you where you could find him—where he had been.

Mr. GRAY. Where is Mr. Wilder?

Mr. HANSELL. I suggested to you where I thought he could be found, sir.

Mr. GRAY. You don't know definitely where he is?

Mr. HANSELL. No.

Mr. GRAY. Well now, what interest did you get in the sale of the stock that was returned or kept or abstracted, or any other words you want to use, by Wilder, from that 50,000 shares?

Mr. HANSELL. As I recall it, Mr. Wilder gave me a block of that stock at a price somewhat below the then market on the stock.

Mr. GRAY. How big was the block?

Mr. HANSELL. I think it was 6,000 shares. I am not sure.

Mr. GRAY. What was the price?

Mr. HANSELL. I think it was approximately \$5 a share. I am not sure.

Mr. GRAY. What was the then market price?

Mr. HANSELL. The market had been around \$9 or \$10 a share.

Mr. GRAY. All right.

Mr. HANSELL. The stock had gone to \$17, and come back to \$8 or \$9 or so, and gone up to \$12, and fluctuated.

Mr. GRAY. I ask you whether or not during the time that you were marketing that 40,000 shares of stock, during the time that you were marketing the 60,000 shares of stock, and during the time that the stock which Wilder was able to retain out of the 50,000 shares and you and he and the others were marketing it, you employed a man named A. Newton Plummer for the purpose of publishing false advertisements as to the value of this stock?

Mr. HANSELL. Certainly not.

Mr. GRAY. Did Plummer claim to you that you had so employed him?

Mr. HANSELL. I don't remember that he did. The facts as I remember them are—shall I go on with that?

Mr. GRAY. Let me ask you a couple of other questions on that and then I will let you make whatever statement you want.

Mr. HANSELL. All right.

Mr. GRAY. Did Plummer institute a suit against you and Harry Content, a member of the New York Stock Exchange and a member of the firm of H. Content & Co., to recover for services rendered under what he alleged was a contract with you to make certain publications? Did he institute the suit?

Mr. HANSELL. I think he did.

Mr. GRAY. All right. Did you settle it?

Mr. HANSELL. Yes.

Mr. GRAY. How much did you give him?

Mr. HANSELL. The total amount that he received——

Mr. GRAY. Approximately \$10,000, wasn't it?

Mr. HANSELL. Yes. It is more than that.

Mr. GRAY. More than that?

Mr. HANSELL. He was not employed though, Mr. Gray, if you will excuse me——

Mr. GRAY. If you will answer this question, and then you can make whatever explanation you wish. I want the figures. How much did you pay to settle?

Mr. HANSELL. The total amount that he received in connection with the Indian Motorcycle Co., according to the records which I have here—and I haven't the books—is \$26,880.

Mr. GRAY. For what?

Mr. HANSELL. He brought Mr. Mitchell to my office, and he said——

Mr. GRAY. All right, go ahead and make any explanation you want.

Mr. HANSELL. And my remembrance of it is, he said, "You do this business and I introduce these people to you; I would like to have 25 per cent of the profits of the business."

Mr. GRAY. Did he get it?

Mr. HANSELL. I think he got a good deal more than that, Mr. Gray.

Mr. GRAY. Why?

Mr. HANSELL. Because he claimed he had done a great deal of work, and he instituted a suit which we didn't want to go to the worry and expense of trying. The matter involved at the end there was about \$10,000.

Mr. GRAY. Yes. In other words, he had gotten about \$15,000 or \$16,000; and at the end when he instituted the suit you gave him \$10,000 more?

Mr. HANSELL. As far as I can find here the payments began prior to March 15 with \$6,000. As far as I can find out here.

Mr. GRAY. We do not want to bother with the dates. That is approximately it; is that right?

Mr. HANSELL. Yes; that is right.

Mr. GRAY. Whose money was that that he got?

Mr. HANSELL. It was my money; Hansell & Co.

Mr. GRAY. All of it yours. How much did Content contribute?

Mr. HANSELL. To this settlement?

Mr. GRAY. Yes.

Mr. HANSELL. I don't remember if he contributed anything. I haven't got the figures here.

Mr. GRAY. How much of the \$26,000 did Content pay to him?



Mr. HANSELL. I don't remember that he paid any.

Mr. GRAY. Who else besides you paid any of it?

Mr. HANSELL. I have no remembrance that anybody else contributed.

Mr. GRAY. How much did you make out of the dealings in Indian Motorcycle?

Mr. HANSELL. I think that eventually we made probably \$25,000.

Mr. GRAY. And gave Plummer \$26,000 of it?

Mr. HANSELL. Yes, sir. I have a list of all the payments.

Mr. GRAY. Your agreement with him, if your statement is correct, is that he was to have 25 per cent of the profits?

Mr. HANSELL. Yes.

Mr. GRAY. And you tell this committee that you gave him \$26,000, though you only made \$25,000?

Mr. HANSELL. I haven't the records, Mr. Gray, so I can only speak from memory.

Mr. GRAY. Approximately? I won't hold you to any exact figure. Well, I suggest to you, and I want to know whether it is so, that the rest of them, Content, Wilder, and the others of this bunch, made considerable profits also, and that that \$26,000 does not represent what you paid to Plummer, but that it represents what you all paid to Plummer, possibly through you: is that correct?

Mr. HANSELL. I don't remember whether there were any contributions made by anybody else to this settlement with Plummer or not. And I have no records to let you know from.

Mr. GRAY. I will say to the committee that there is on record, as I find—and I wanted to avoid any repetition—in Congressman LaGuardia's testimony, data with respect to these publications themselves that were made by Plummer, and evidence with reference to the payment of money, so that I brought Mr. Hansell here to question him with respect to the other side of it, but I am not going back and again re-prove that which is already on the record.

I think that is all I want to ask Mr. Hansell, unless the committee wants to ask any questions.

Mr. HANSELL. Could I make one remark?

Mr. GRAY. Anything you want to state, Mr. Hansell, with respect to the matter about which I have asked you, take the opportunity to do so.

Mr. HANSELL. Thank you very much. I was handed a balance sheet of the Indian Motorcycle Co. which appeared in the New York Stock Exchange listing application, giving the figures as of September 30, 1929. And I purchased the stock on December 30. So it was only a short time thereafter. Which showed cash of \$91,000; accounts receivable, less reserve for doubtful accounts, of \$574,000; and inventories at cost or market, whichever is lower, \$841,000; making a total of current and inventory assets of \$1,600,000, against which the company owed at that time \$485,000, which showed almost a 4 to 1 quick condition, which was considered a satisfactory condition.

The company also had carried on the books at that time their plant, land, building, real estate, machinery, at \$2,200,000, less reserve for depreciation of \$1,000,000, which seemed conservative, since I went and looked at the plant, or a net plant account of \$1,158,000.

The net current assets plus the plant value—and it had no mortgages—gave a book value of the stock, exclusive of good will, which they carried at two and a half million dollars, or \$18 per share, when we purchased the stock at \$5 per share and sold it from \$5 up.

Mr. GRAY. Well, now, I should not have touched that proposition except for the fact that I now want to ask you, inasmuch as you have shown this statement, whether or not the Indian Motorcycle Co. did not either in the middle or the latter part of 1930 make a deal with Paul S. du Pont for the purpose of turning the company over to him and his associate? Is that right?

Mr. HANSELL. Yes.

Mr. GRAY. And upon the investigation that the Du Pont Co. made—

Mr. HANSELL. You say that the Indian Motorcycle Co. did it?

Mr. GRAY. Yes.

Mr. HANSELL. I don't think the associates of the company were involved.

Mr. GRAY. Yes. And upon the investigation that Du Pont made he found all of these various statements, such as the one that you have indicated was filed, to be absolutely false and untrue?

Mr. HANSELL. I never found any of the statements made by those accountants to be untrue.

Mr. GRAY. I am talking about the statements that were issued by the company with reference to their financial situation.

Mr. HANSELL. I never heard that the statements which were presented to the New York Stock Exchange, which were audited, were false.

Mr. GRAY. You said you gave calls to various people?

Mr. HANSELL. Yes.

Mr. GRAY. You gave a call to Carl Ausserer?

Mr. HANSELL. Yes.

Mr. GRAY. Who is he?

Mr. HANSELL. He is a broker in New York.

Mr. GRAY. A member of the stock exchange?

Mr. HANSELL. No; he is not a member of the stock exchange. He is a trader.

Mr. GRAY. Mr. Barnes, of Tully, Monteith & Mitchell?

Mr. HANSELL. Yes.

Mr. GRAY. A member of the New York Stock Exchange?

Mr. HANSELL. No.

Mr. GRAY. A trader or a customers' man, which?

Mr. HANSELL. No; an independent trader. He was not employed, I understand.

Mr. GRAY. You gave a call to David Lyon?

Mr. HANSELL. Yes.

Mr. GRAY. Who is he?

Mr. HANSELL. I don't remember.

Mr. GRAY. And F. D. Cochrane?

Mr. HANSELL. Yes.

Mr. GRAY. Who is he?

Mr. HANSELL. He is one of the rich men of Boston who had been a customer of mine for a long time.

Mr. GRAY. You gave a call to F. J. Davidson?

Mr. HANSELL. Yes.

Mr. GRAY. Who is he?

Mr. HANSELL. Mr. Davidson is a dealer in securities.

Mr. GRAY. And to Joseph Snyder?

Mr. HANSELL. Yes.

Mr. GRAY. He is a dealer also?

Mr. HANSELL. No; he is a private investor. He was one of the promoters of the Texas-Gulf Sulphur Co.

Mr. GRAY. You gave a call to Phillip Randolph, of Appenzeller, Allen & Hill?

Mr. HANSELL. Yes.

Mr. GRAY. Who is he?

Mr. HANSELL. He is a customers' man.

Mr. GRAY. He is a customers' man. Suppose you stop and explain what a customers' man is. He is a man who is on the floor of the brokerage house and discusses the various matters with customers, and will give them advice if they want it, and sometimes when they don't want it. That is true, isn't it?

Mr. HANSELL. That is right.

Mr. GRAY. And without my going over this list, you gave calls to a number of customers' men and to people in brokerage houses?

Mr. HANSELL. Yes.

Mr. GRAY. For the purpose of helping you market your stock?

Mr. HANSELL. Yes.

Mr. GRAY. That is all. Mr. Bolles.

#### TESTIMONY OF NORMAN T. BOLLES, NEW YORK CITY, PRESIDENT INDIAN MOTOCYCLE CO.

Senator GLASS (presiding). You solemnly swear that the evidence that you will give in this matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BOLLES. Yes.

Mr. GRAY. Mr. Bolles, there are just some definite facts that I want to get from you in connection with this transaction. Did you make this first deal with respect to the sale of 40,000 shares of stock to Hansell?

Mr. BOLLES. I did.

Mr. GRAY. You had the entire charge of the arrangement?

Mr. BOLLES. Not entire charge; no, sir.

Mr. GRAY. Well, you completed it?

Mr. BOLLES. In collaboration with Mr. Mitchell.

Mr. GRAY. In collaboration with Mr. Mitchell. What, if anything, did you tell Mr. Hansell or what, if anything, did Mr. Mitchell tell him in your presence with respect to the then financial situation of Indian Motorcycle Co.?

Mr. BOLLES. I told him briefly that the working-capital position of the company had been decreased by about \$1,200,000 in the exploitation of automobiles and electric refrigerators. I explained to him that the company had been the largest manufacturer in this country of motor cycles, and explained to him that our principal competitor, the Harley-Davidson Co., had made approximately \$1,800,000 the year previous to the sale of this stock.

Mr. GRAY. Try and keep your voice up a little.

Mr. BOLLES. I told him that the company was in a temporary embarrassing financial condition due to the decrease in working capital position, and tried to get him to buy 100,000 shares at \$5 to finance the company.

Mr. GRAY. In other words, he knew that you were in this bad financial shape when he took this 40,000 shares of stock from you and put it on the market to the public?

Mr. BOLLES. Yes.

Mr. GRAY. No question about that, is there?

Mr. BOLLES. None whatsoever.

Mr. GRAY. None whatsoever?

Mr. BOLLES. But the financial condition had arisen quite rapidly. The dealer organization, the general business of the company, was in a continuing state, if I make myself clear?

Mr. GRAY. Yes; you do. But your financial position was such that you could not carry on?

Mr. BOLLES. That is true.

Mr. GRAY. Now, as a matter of fact, he marketed those 40,000 shares, and afterwards marketed 60,000 shares?

Mr. BOLLES. That is right.

Mr. GRAY. Did you have any interest in that stock?

Mr. BOLLES. None whatsoever.

Mr. GRAY. None whatsoever?

Mr. BOLLES. No.

Mr. GRAY. Did any of the other officers of the company?

Mr. BOLLES. I don't know.

Mr. GRAY. You don't know whether Mitchell did have?

Mr. BOLLES. Mitchell bought stock.

Mr. GRAY. Do you know whether he had any interest in these trades with Hansell?

Mr. BOLLES. No; I do not.

Mr. GRAY. What ultimately happened to the company during the year 1930, briefly, if you please?

Mr. BOLLES. In the early part of 1930 we decided that the outboard motor which had been developed by the company was not capable of economical production. I further had a survey made of the company by Ford, Bacon & Davis, who reported that some of the machinery was antiquated, and that we needed approximately a half a million dollars or more to introduce new models and provide adequate and new machinery. We found further that the sales organization had been seriously affected by the reports published of the practical receivership of the company some few months before.

Mr. GRAY. Well, what did you do in connection with this matter? You made a deal with Du Pont, did you not?

Mr. BOLLES. Yes.

Mr. GRAY. Yes. And it is a fact, is it not—I don't know whether you will concede that there were false statements, but it is a fact that it was claimed by the Du Pont interests at any rate, that the statements that you had made with respect to the financial situation were untrue? That is correct, isn't it?

Mr. BOLLES. No, sir.

Mr. GRAY. Did the deal go through with Du Pont?

Mr. BOLLES. Yes.

Mr. GRAY. Then what happened? Wasn't there some discussion about the question of the verity of the statements that had been made?

Mr. BOLLES. The only discussion held with the du Ponts was in reference to the expenditure of money in connection with the flotation of the stock.

Mr. GRAY. What do you mean by that?

Mr. BOLLES. There were charges made for publicity service.

Mr. GRAY. Yes. By your company?

Mr. BOLLES. I beg your pardon?

Mr. GRAY. By the company and on the company's books?

Mr. BOLLES. No; there was an adjustment in process between the company and Hansell & Co.

Mr. GRAY. Yes. What had the company to do with the publicity that was given by Hansell & Co.?

Mr. BOLLES. It was not entirely with Hansell & Co. There is an organization known as Cram's Automotive Service which makes surveys, furnishes dealers with information, and so forth. We decided it would be a desirable thing to have such a report made with the idea of restoring the morale of the 2,500 dealers that we had. Hansell & Co. made that contract, believing, as I did, that that contract could be made to better advantage by him than I could. There were certain other claims which I believe Plummer made on the same basis. Those claims were not allowed.

Mr. GRAY. In other words, there was a question as to whether or not in your financial statement these expenditures which had been made for these purposes were to be given consideration; is that it?

Mr. BOLLES. Not necessarily.

Mr. GRAY. Well, I do not see the significance of what you tell me then.

Mr. BOLLES. Well, there was a discussion with du Pont regarding the validity of these claims or adjustments between Hansell & Co. and the Indian Motorcycle Co.

Mr. GRAY. Well, that is just what I said.

Mr. BOLLES. But that has nothing to do with the financial statement.

Mr. GRAY. That was a question of your liabilities, wasn't it? By the way, was this man Cram given an option on a substantial block of this stock?

Mr. BOLLES. I have no idea.

Mr. GRAY. You do not know about that. Now, as a matter of fact, Wilder was sent to England for the purpose of negotiating—that is, after these two blocks of stock were sold, the 40,000 shares and the 60,000 shares—for the purpose of negotiating for an automobile engine over there, a Diesel engine; isn't that true?

Mr. BOLLES. I don't know whether he went prior to the purchase of the 60,000 shares or after that.

Mr. GRAY. He was sent over there?

Mr. BOLLES. He was sent over to England.

Mr. GRAY. And he was given 50,000 shares of stock in the Indian Motorcycle Co. to buy it?

Mr. BOLLES. Yes.

Mr. GRAY. Did you have any interest in the stock that was thereafter sold through Content & Co., that Hansell was interested in, and the others were interested in?

Mr. BOLLE. None whatsoever.

Mr. GRAY. Did you have anything to do with the profit?

Mr. BOLLES. No, sir.

### TESTIMONY OF H. CONTENT, NEW YORK CITY

The CHAIRMAN. Do you solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter under investigation by this committee, so help you God?

Mr. CONTENT. I do.

Mr. GRAY. Mr. Content, you are a member of the firm of Harry Content & Co.?

Mr. CONTENT. H. Content & Co.

Mr. GRAY. You reside in New York?

Mr. CONTENT. 32 East Fifty-first Street.

Mr. GRAY. And Content & Co. is a member of the New York Stock Exchange; is that correct?

Mr. CONTENT. Yes, sir.

Mr. GRAY. You have been with that firm and as a member of the New York Stock Exchange for how long?

Mr. CONTENT. Forty-seven years.

Mr. GRAY. You remember my sending for you and interviewing you the other day with respect to the transactions in Indian Motorcycle Co. on your books?

Mr. CONTENT. Yes, sir.

Mr. GRAY. Do you remember telling me at that time that you had absolutely no interest in the motor cycle stock except to receive commissions on the transactions that went through the brokerage firm?

Mr. CONTENT. I do not.

Mr. GRAY. You do not. Well, I will proceed with the other questions; but I would suggest that you did and that that is why you are here to-day. I ask you now, then, did you have any other interest in the Indian Motorcycle Co. stock transactions that passed through your firm in January of 1930 and thereafter?

Mr. CONTENT. I don't get your question.

Mr. GRAY. Well, you knew that Hansell had bought or had an option on 40,000 shares of Indian Motorcycle Co. stock, did you not?

Mr. CONTENT. That is what he told me.

Mr. GRAY. Yes. Did you have an interest in that stock?

Mr. CONTENT. I did not.

Mr. GRAY. None whatever?

Mr. CONTENT. No, sir.

Mr. GRAY. Was it traded in through your concern by Hansell?

Mr. CONTENT. Yes, sir.

Mr. GRAY. But you personally had no interest?

Mr. CONTENT. No, sir.

Mr. GRAY. Did H. Content & Co. have any interest?

Mr. CONTENT. No, sir.

Mr. GRAY. Did you have any interest in anybody else's name in that 40,000 shares?

Mr. CONTENT. No, sir.

Mr. GRAY. Sure of that?

Mr. CONTENT. Sure as I can be without my records.

Mr. GRAY. Well, wouldn't you know——

Mr. CONTENT (interposing). I can't——

Mr. GRAY (interposing). I will show you your records after while. Would you know whether or not you had an interest in 40,000 shares without examining your records?

Mr. CONTENT. I should say I did not have any interest.

Mr. GRAY. Say you did not have. You were asked to examine your records and come here ready to testify, were you not?

Mr. CONTENT. Yes. You were to send for them last Thursday.

Mr. GRAY. I have them.

Mr. CONTENT. And I only made them up and gave them to you last night.

Mr. GRAY. Yes; then you had more opportunity to examine them than I did, didn't you?

Mr. CONTENT. But I only saw them when I came down.

Mr. GRAY. Well, don't let us bandy words about it. Did you have an interest in the 60,000 shares, the second option he had?

Mr. CONTENT. I received an option from Mr. Hansell.

Mr. GRAY. Out of the 60,000?

Mr. CONTENT. Out of the 60,000.

Mr. GRAY. Of how much?

Mr. CONTENT. Twenty-five thousand shares, of which I gave Mr. Wilder a half interest.

Mr. GRAY. Yes.

Mr. CONTENT. We had a joint account for that 25,000.

Mr. GRAY. What did you give to Mr. Hansell for the option—anything?

Mr. CONTENT. No.

Mr. GRAY. What did you give him for the stock that you took over under the option?

Mr. CONTENT. Seven dollars and a half, I think.

Mr. GRAY. Seven dollars and a half?

Mr. CONTENT. I think so.

Mr. GRAY. And that stock was sold at a profit?

Mr. CONTENT. It was sold at a profit.

Mr. GRAY. You were entirely familiar with all of the deals of Hansell in connection with Indian Motorcycle, were you not?

Mr. CONTENT. Only from what he told me.

Mr. GRAY. What did he tell you about the company, and how he had come to arrange these deals?

Mr. CONTENT. He came to me, I suppose, and says, "I have got a very great opportunity."

Mr. GRAY. Great opportunity for what?

Mr. CONTENT. To make some money. "I bought 40,000 shares." This is what he probably said. I can not tell you word for word.

Mr. GRAY. Yes; go ahead.

Mr. CONTENT. About three years ago, he said, "Now, I want you to do what you can." He probably said, "I want some money on some of it," I don't know.

Mr. GRAY. You advanced him money?

Mr. CONTENT. I think we did.

Mr. GRAY. Yes.

Mr. CONTENT. For his account.

Mr. GRAY. And trading that was done, both in the 40,000 and the 60,000, who gave the orders?

Mr. CONTENT. Hansell gave them; Wilder gave them. There were several accounts there that you have. We received orders from Hansell for these different accounts. Some of those accounts are accounts that were Hansell's accounts himself, and the same way as if we carried for other brokerage houses their accounts. They give the orders, but we carry the stocks.

Mr. GRAY. Were there transactions in which the stock, Indian Motorcycle Co. stock, passed from the account of Hansell & Co. to your account and backward and forward on your books?

Mr. CONTENT. Not backward and forward.

Mr. GRAY. Well, from one account to the other?

Mr. CONTENT. I do not think we ever transferred any stock from the Indian Motorcycle Co. stock account to any account, because we never had an account for the Indian Motorcycle Co.

Mr. GRAY. No; but you had an account for Content & Wilder?

Mr. CONTENT. Yes, sir.

Mr. GRAY. You had an account for Hansell & Co.?

Mr. CONTENT. Yes.

Mr. GRAY. Was the stock transferred from one to the other of those accounts?

Mr. CONTENT. Yes.

Mr. GRAY. I ask you whether or not it is not a fact that from the very beginning Hansell let you have discretion as to what price you were going to buy and sell stock at.

Mr. CONTENT. No; I don't remember that.

Mr. GRAY. You don't think so?

Mr. CONTENT. I think he would say, "Sell 10,000 between eight and nine," or some expression like that, or "Put those down. Buy some."

Mr. GRAY. Generally you had discretion in the matter?

Mr. CONTENT. In that way.

Mr. GRAY. Yes.

Mr. CONTENT. But I had no charge of the pools or whatever you want to call it.

Mr. GRAY. I ask you whether or not you have been examined about this matter before?

Mr. CONTENT. I have.

Mr. GRAY. And didn't you say at that time, referring to Hansell, when you were asked—

When did he lodge that discretion in you?

Answer. We have always had that.

Question. In all stocks dealt in by Hansell?

Answer. When he had a deal.

Is that correct?

Mr. CONTENT. That is probably correct.

Mr. GRAY. Isn't it correct without any "probable"?

Mr. CONTENT. Not the meaning that you interpret.

Mr. GRAY. I didn't interpret it; I just read you the words. Did you so testify?

Mr. CONTENT. I may have.

Mr. GRAY. You will not even be ready to admit it definitely?



Mr. CONTENT. If you have it, I suppose it is.

Mr. GRAY. I have it. Then you will admit you so testified?

Mr. CONTENT. Yes.

Mr. GRAY. Were you interested in the deal with Wilder after he got some of that 50,000 shares of stock that he was given for the purpose of buying that Diesel engine in England?

Mr. CONTENT. No further than the call.

Mr. GRAY. No further than what?

Mr. CONTENT. A call on 25,000 shares joint account.

Mr. GRAY. Now, that call was 25,000 shares of the 60,000 that Hansell had. I am talking about the 50,000 shares of stock that Wilder had with an authority to buy the Diesel engine stock from a certain company in England. You know he came back with some of that stock and it was sold through your house; that is right, is it not?

Mr. CONTENT. That is right; yes.

Mr. GRAY. How much of an interest did you have in that?

Mr. CONTENT. I had no interest in it.

Mr. GRAY. No interest whatever?

Mr. CONTENT. No, sir.

Mr. GRAY. Nor in your own name or any other name?

Mr. CONTENT. No, sir.

Mr. GRAY. You had given Wilder half of your interest in that 25,000 call?

Mr. CONTENT. Yes, sir.

Mr. GRAY. Wilder didn't give you any interest in that stock?

Mr. CONTENT. No, sir.

Mr. GRAY. None whatever?

Mr. CONTENT. No, sir.

Mr. GRAY. None whatever?

Mr. CONTENT. I tell you I advanced him some money.

Mr. GRAY. Yes.

Mr. CONTENT. And he brought me in some certificates of stock which he was going to give me free and which I paid him an amount of money for, I don't remember what it was, but I advanced him about \$15,000 to go to Europe.

Mr. GRAY. Yes.

Mr. CONTENT. And when—if the gentlemen would like to hear it; I don't like to take up the time.

Mr. GRAY. Go right ahead. It is interesting.

Mr. CONTENT. Then you will understand the situation.

Mr. GRAY. I understand it, but I want the committee to understand it.

Mr. CONTENT. Then Wilder went to Europe, and I suppose I advanced him \$15,000 to go. He had no money, and he got to Europe and we had this joint account. I sold this stock thinking I would make him—but I could take out my \$15,000. I think that the profit in that account when I started to sell about 123,000 shares must have been over \$50,000. So Wilder goes crazy in London over this engine, sending me word that the stock was worth \$30 a share and he did not want to sell it, and I had no right to sell it, and could not sell, and we had a terrible time. He was on the telephone from London. Cables he got were sent to New York. They were the worst things you ever read. He finally sent a lawyer down to my office with a paper demanding that I replace that stock, and, well, we had a terrible time.

So I got angry and I repurchased that stock, which sold between, I should say, 8 and 11. I don't think anything over 10 or 11, because I didn't want it to go up any higher.

Mr. GRAY. You didn't want it to go up any higher?

Mr. CONTENT. No.

Mr. GRAY. I see.

Mr. CONTENT. And I think it may have—I have the figures of it.

Mr. GRAY. Yes.

Mr. CONTENT. There are so many of them. And I sold that stock between 8 and 11. And when this lawyer came down to my office with these papers I turned around and bought that stock back at up to 13 to cover that account. Knowing that he was going to get it, I sold some of my own stock for my own protection.

Mr. GRAY. Well, answer me this: Did you have an interest in that stock that you were handling for Wilder?

Mr. CONTENT. I told you it was joint account.

Mr. GRAY. I don't mean the 25,000 optional stock from Hansell.

Mr. CONTENT. No; I had no direct interest, but he said he was going to get stock free and would give it back to me for the money I advanced him.

Mr. GRAY. Did you get it?

Mr. CONTENT. I got some, I think.

Mr. GRAY. Yes.

Mr. CONTENT. But I don't know. If you have the record there, I will take your record.

Mr. GRAY. In the matter of these discretionary operations, I want to read you a little bit of testimony you gave once before then ask you one question, whether it is correct.

What was the purpose in your buying the stock for Mr. Hansell's account?

Answer. To make a better market.

Question. A better market in what respect?

Answer. If you come in and the stock was 5, offer at 6, it would not be a good market. So I would make the price  $5\frac{1}{2}$  to 6 or  $5\frac{3}{4}$  to 6.

Question. And how would you make the price of  $5\frac{3}{4}$  to 6, by offering to buy stock at that price?

Answer. By bidding  $5\frac{3}{4}$  and offering 6.

Question. And when you bid that  $5\frac{3}{4}$  and offered 6, did you actually make the purchase of  $5\frac{3}{4}$ ?

Answer. If anybody sells that I buy it. Certainly, I have to.

Question. The primary purpose of offering to buy the stock at a higher price than the offering price is to obtain for Mr. Hansell a large price for the stock he has on hand: is that right?

Answer. No; you can not bid above the offer price on the stock exchange.

Question. But you increased the bid from 5 to  $5\frac{3}{4}$ ?

Answer. I may or may not.

Question. When you offer to buy the stock, that increases the market price of the stock, does it not?

Answer. Absolutely.

Question. And the purpose of increasing the market price of the stock is to get as much as you can for Hansell's stock?

Answer. Absolutely.

That is correct, is it not?

Mr. CONTENT. Certainly.

Mr. GRAY. In other words, though the market on a particular stock might be 6 offer and 5 bid, you would put in a bid for  $5\frac{3}{4}$  in order to keep the price of that stock up and if necessary take it in order to get a better price for the stock of Hansell's that you were handling?

Mr. CONTENT. Certainly.

Mr. GRAY. Now, what do you know about Mr. Plummer in connection with this transaction?

Mr. CONTENT. I don't know anything about him.

Mr. GRAY. Did you know him?

Mr. CONTENT. I have met him.

Mr. GRAY. How much of the \$26,000 that was paid to Plummer did you pay?

Mr. CONTENT. I didn't pay any of it.

Mr. GRAY. None of it?

Mr. CONTENT. No, sir.

Mr. GRAY. Not through a direct or indirect contribution?

Mr. CONTENT. No, sir.

Mr. GRAY. You knew that he sued you and Hansell, didn't you?

Mr. CONTENT. And about 10 others.

Mr. GRAY. Well, whoever the 10 others were, you knew that you and Hansell were among them?

Mr. CONTENT. Yes.

Mr. GRAY. And you know that Hansell paid \$10,000 to settle that suit, don't you?

Mr. CONTENT. So I heard.

Mr. GRAY. Well, you knew it when it was done, didn't you?

Mr. CONTENT. No; I did not.

Mr. GRAY. When did you first hear of it; when I told you about it?

Mr. CONTENT. No; I have heard it several times.

Mr. GRAY. You paid none of that money?

Mr. CONTENT. No, sir.

Mr. GRAY. Hansell makes the statement that his profit out of this transaction was \$25,000, but that he paid Plummer \$26,000 because he had agreed to give Plummer 25 per cent of his profits. Do you know whether that is so or not?

Mr. CONTENT. I do not.

Mr. GRAY. But you did not pay any part of that twenty-six thousand?

Mr. CONTENT. No, sir.

Mr. GRAY. All right; I guess that is all I want. That is all.

Mr. CONTENT. You can have the copies if I may have my account.

Mr. GRAY. Yes, sir; we will see that you get them back.

Now, is Mr. Levenson here?

### TESTIMONY OF JOHN J. LEVENSON, NEW YORK CITY

The CHAIRMAN. Do you solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter under investigation by this committee, so help you God?

Mr. LEVENSON. I do.

Mr. GRAY. So the committee may understand what I intend to develop in this case I am going to show that Mr. Levenson, who was a trader, dealt in a number of stocks during a certain period of time; and I am going to show that during that time there were a number of publications over the signature of a man known as "The Trader," and I am going to show that for those publications that "Trader" got nineteen thousand and some odd dollars.

Mr. Levenson, did you give your full name, John J. Levenson?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. Where do you live?

Mr. LEVENSON. White Plains, Westchester County, N. Y.

Mr. GRAY. What is your New York City address?

Mr. LEVENSON. 14 Wall Street.

Mr. GRAY. And what is your business?

Mr. LEVENSON. I am a free-lance trader.

Mr. GRAY. I ask you whether or not during the years 1929 and part of 1930 you conducted some operations through the office of Burnham, Herman & Co.?

Mr. LEVENSON. That is correct, sir.

Mr. GRAY. And during that period of time, can you tell me in what stocks you dealt principally?

Mr. LEVENSON. No; I can not. If you suggest them to me, I will probably remember them.

Mr. GRAY. I will. Did you handle Celotex?

Mr. LEVENSON. I did; but I don't know whether—I had an option on some of that stock. I don't know whether it was in that period. If you checked it up, I presume it is correct.

Mr. GRAY. It is. During that period did you handle Eisler Electric?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. Did you handle Borg Warner?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. Pitney Bowes?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. And Consolidated Aircraft?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. And Radio Products?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. United States Finishing?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. And American Maracaibo?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. All through the same firm, wasn't it?

Mr. LEVENSON. I believe Burnham, Herman & Co. cleared my transactions.

Mr. GRAY. Yes.

Mr. LEVENSON. I take it, Mr. Gray, that you have checked up that period.

Mr. GRAY. Those figures are correct. I have all your sheets of Burnham, Herman & Co., with all of your accounts, if it is necessary to look at them, in detail.

Now, during that period of time, can you tell this committee in those eight stocks that I have mentioned how much you and your associates made therefrom?

Mr. LEVENSON. I could if I had the opportunity to check up, Mr. Gray, but I have not had that opportunity, so I can not tell you offhand.

Mr. GRAY. I ask you whether or not the figure of about a million one hundred thirty-six thousand dollars would be correct?

Mr. LEVENSON. It might be. I have no way of telling.

Mr. GRAY. The records show your exact profits to be \$1,136,322.41. Will you accept that figure as being correct?

Mr. LEVENSON. Subject to any mistakes you might have made in checking it up.

Mr. GRAY. It was taken from the brokerage house sheets.

Mr. LEVENSON. Yes, sir.

Mr. GRAY. All right. I ask you whether you knew during that period of time a man named Raleigh T. Curtis?

Mr. LEVENSON. I did, sir.

Mr. GRAY. Did you owe him any money?

Mr. LEVENSON. No, sir.

Mr. GRAY. Were you under any obligations to him?

Mr. LEVENSON. None whatsoever.

Mr. GRAY. None whatsoever?

Mr. LEVENSON. Except obligations of friendship. I knew him socially.

Mr. GRAY. Who was he?

Mr. LEVENSON. He was connected with one of the New York newspapers.

Mr. GRAY. What was the name of the New York newspaper?

Mr. LEVENSON. The News, I believe.

Mr. GRAY. The New York Daily News, wasn't it?

Mr. LEVENSON. I think that is the name of the paper.

Mr. GRAY. What was his connection with that daily newspaper?

Mr. LEVENSON. He wrote a column. I don't know whether—

Mr. GRAY (interposing). Under the name of "The Trader," didn't he?

Mr. LEVENSON. Right; but I don't know whether he was the financial editor or not.

Mr. GRAY. He wrote a column which he signed under the name of "Trader," in which he disseminated information as to certain stocks; is that correct?

Mr. LEVENSON. Yes, sir; he wrote a column under the name of "The Trader."

Mr. GRAY. I am ready to prove, and I ask you whether you will concede that during the times that you were operating in these various stocks his column signed by him under the name of "The Trader" boosted the particular stock in which you were operating at that time.

Mr. LEVENSON. No, sir; I can not concede that.

Mr. GRAY. You can not concede it?

Mr. LEVENSON. I can say it might have.

Mr. GRAY. It might have?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. Well, after I show you how much money you gave him I think we can reasonably draw that conclusion, but did you pay him any money directly for the purpose of boosting those stocks?

Mr. LEVENSON. I did not.

Mr. GRAY. No. What you did for Curtis was this, was it not: That in whatever stock you were operating you bought for him a certain amount or number of shares of that stock through the brokerage house with whom you were dealing, and then when the profit was made sold it for him and directed the house to send him a check for his profit. Is that correct?

Mr. LEVENSON. No, sir; it is not correct. It is not wholly correct.

Mr. GRAY. Well, tell us what you did.

Mr. LEVENSON. I bought and sold stock and had it put—he had an account with that house in his own name. The purchases and sales of those transactions went into that account, and if there was a profit in the account it was his, and he directed the firm to send him a check whenever he wanted it.

Mr. GRAY. Whenever he wanted the money he directed the firm to send him a check. Did he put that money into that account?

Mr. LEVENSON. No, sir; not to my knowledge. He might have had an account with money in it, but not to my knowledge.

Mr. GRAY. Let me tell you the records did not show that he had.

Mr. LEVENSON. Well, I mean he might have had another account.

Mr. GRAY. Let us talk about this one. This will be troublesome enough. I ask you whether or not you guaranteed that account.

Mr. LEVENSON. I did, sir.

Mr. GRAY. And do you know that during that period of time between May 3, 1929, and March 1, 1930, his profits were \$19,063.44?

Mr. LEVENSON. I have no idea what his profits were.

Mr. GRAY. Give me the checks.

Mr. LEVENSON. Wait a minute, Mr. Gray. If you checked it up, I will accept it.

Mr. GRAY. You will accept it?

Mr. LEVENSON. Yes.

Mr. GRAY. By the way, do you know Curtis's signature?

Mr. LEVENSON. I have seen his signature, but I don't remember it.

Mr. GRAY. Wasn't he such an intimate friend of yours?

Mr. LEVENSON. Yes.

Mr. GRAY. Why, he lives right near you in White Plains?

Mr. LEVENSON. He lives right close to me; yes.

Mr. GRAY. How long has he lived across the way from you?

Mr. LEVENSON. I think about three years.

Mr. GRAY. Well, I guess you know his signature, don't you?

Mr. LEVENSON. Yes.

Mr. GRAY. Just glance at these indorsements on these photostatic copies of these checks and tell me whether or not they are his signature.

Mr. LEVENSON. I will accept them as his signature. I really don't remember.

Mr. GRAY. Do you know where he is?

Mr. LEVENSON. The last that I knew where he was he was living in his house across the street in White Plains.

Mr. GRAY. I say to the committee that I had a man up there for two days who camped on his porch all of two separate nights, and was up there before he could have gotten up in the morning, and I can not find him.

Well, now, why did you give Mr. Curtis a profit of \$19,000 and some odd in these transactions?

Mr. LEVENSON. I met Mr. Curtis in the course of his business as a financial reporter. His duties are to go around to the different houses in the Street, talk to people that may be there in regard to the financial situation, the stock market, the money market, and many other things. I met him in that way. I got to know him and I liked him, and our families met. I met his father and mother, his wife's father and mother, and we became intimate. He was desirous of moving up in the country where I lived, and I tried to do every-

thing I could to help him. My way of helping him was to make this money for him.

Mr. GRAY. Do you do that for every man that you would like to help?

Mr. LEVENSON. I have done for a great many.

Mr. GRAY. And I suppose you will tell this committee the fact that he was "The Trader" with one of the largest followings in New York, as far as his column was concerned, and wrote stock-market news every day and boosted these particular stocks that you were operating in, that that had absolutely nothing to do with it?

Mr. LEVENSON. Mr. Curtis did not boost only the stocks that I was interested in, Mr. Gray. He spoke about the general stock-market situation.

Mr. GRAY. Of course he didn't publish a column devoted to your stocks.

Mr. LEVENSON. I don't deny that I discussed these stocks with him. I did, as I discussed other stocks. But I presume you are looking for a motive. My motive was not to pay him for publicity, if that is what you mean.

Mr. GRAY. It was not?

Mr. LEVENSON. It was not.

Mr. GRAY. Where does it occur to you that I think you did?

Mr. LEVENSON. Because you questioned me in that respect when I saw you on Thursday.

Mr. GRAY. Correct. That is a very good reason for it.

Mr. LEVENSON. That is where I got the impression.

Mr. GRAY. Got the idea and impression.

Mr. LEVENSON. I had also been questioned before.

Mr. GRAY. And you discussed these stocks with Curtis?

Mr. LEVENSON. I generally did, like I would discuss other stocks that I was not even interested in.

Mr. GRAY. But, of course, you said to him, "I would rather that you not publish anything about these things, because I am interested in it, and I am giving you \$19,000, and it might not look right for you to boost these stocks?"

Mr. LEVENSON. I did not say to Mr. Curtis, "I am giving you \$19,000." This money was made in small amounts over a period of time in my endeavor to help him.

Mr. GRAY. And publicity had nothing to do with it?

Mr. LEVENSON. I don't deny that he might have mentioned these stocks. I read his paper frequently and saw that he did.

Mr. GRAY. Yes. Well, I am glad you will admit that. And if he had not, you would have stopped this account, would you not?

Mr. LEVENSON. I would not have.

Mr. GRAY. You would have given it to him just the same?

Mr. LEVENSON. I would have done the same thing.

Mr. GRAY. Suppose that he in his column, while you were endeavoring to make a profit on the long side of the market in a certain stock, was giving out information and news which would indicate that that particular stock that you were dealing in was not worth the price at which it was quoted in the market; would you have still continued to do this for him?

Mr. LEVENSON. I think I would have.

Mr. GRAY. You think you would have?

Mr. LEVENSON. I wouldn't say that I would not have argued with him trying to convince him that he was wrong.

Mr. GRAY. No; of course not. That is all.

Mr. LEVENSON. Is that all, Mr. Gray?

Mr. GRAY. Yes; that is all. Mr. Cornell, please.

### TESTIMONY OF R. J. CORNELL, JERSEY CITY, N. J.

The CHAIRMAN. Do you solemnly swear you will tell the truth, the whole truth, and nothing but the truth, regarding the matter under investigation by this committee?

Mr. CORNELL. I do.

Mr. GRAY. Where do you reside, Mr. Cornell?

Mr. CORNELL. Jersey City, N. J.

Mr. GRAY. In 1931, in June, were you connected with any of the departments of the State of New York?

Mr. CORNELL. Bureau of securities in the department of law.

Mr. GRAY. Did the matter of these transactions of Mr. Levenson and the publications of Mr. Curtis come before you for investigation?

Mr. CORNELL. Yes, sir; they did.

Mr. GRAY. For your reference in order that you may have the data before you, I am handing you a memoranda, which is a memoranda, I think, of your own, is it not?

Mr. CORNELL. Yes, sir.

Mr. GRAY. I ask you whether or not you investigated these various stocks, Celotex and others that you heard me examine Mr. Levenson in respect to as far as his accounts in Burnham, Herman & Co. were concerned?

Mr. CORNELL. Yes, sir; I investigated his accounts in these stocks.

Mr. GRAY. And is the figure correct that I have suggested to him; that is, that he and his associates made between May of 1929 and March of 1930—\$1,136,322.41?

Mr. CORNELL. Yes, sir; that is a total profit that showed on the brokerage accounts in these operations.

Mr. GRAY. Now, did you examine into these accounts of Raleigh T. Curtis on the books of Burnham, Herman & Co.?

Mr. CORNELL. Yes, sir.

Mr. GRAY. Were those accounts margined accounts?

Mr. CORNELL. No, sir.

Mr. GRAY. You mean in answering that they were not—well, I will have to put you another question first. They were not margined accounts. Were there ever any entries in those accounts of payments made by Curtis or anybody on his behalf?

Mr. CORNELL. No, sir.

Mr. GRAY. In other words, they were accounts that showed the purchase of stocks, the sale of stock, on the profitable side, and a delivery of a check; is that correct?

Mr. CORNELL. That is right.

Mr. GRAY. Was there ever any losses on any of them?

Mr. CORNELL. No, sir.

Mr. GRAY. I show you photostatic copies of checks which I will afterwards hand to the reporter:



May 24, 1929, for \$3,706.14—all of these checks being drawn by Burnham, Herman & Co. to the order of Raleigh T. Curtis and indorsed by him.

(The check last above referred to was designated "Exhibit No. 10" and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, May 24, 1929.*

No. 11124.

Pay to the order of Raleigh T. Curtis \$3,706.14 (3,706 and 14 cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)

To the National City Bank of New York, 55 Wall Street, New York, N. Y.  
(On reverse side of above:) Raleigh T. Curtis.

Mr. GRAY. A check on June 17, 1929, for \$1,055.50.

(The check last above referred to was designated "Exhibit No. 11," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, June 17, 1929.*

No. 11634.

Pay to the order of Raleigh T. Curtis \$1,055.50 (1,055 and 50 cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)  
MAX YASUMA.

To the National City Bank of New York, 55 Wall Street, New York, N. Y.  
(The last above check is indorsed as follows:) Raleigh T. Curtis.

Mr. GRAY. A check on June 19, 1929, for \$949.50.

(The check last above referred to by Mr. Gray was designated "Exhibit No. 12," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, June 19, 1929.*

No. 11725.

Pay to the order of Raleigh T. Curtis \$949.50 (949 and 50 cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)

To the National City Bank of New York, 55 Wall Street, New York, N. Y.  
(The last above check is indorsed as follows:) Raleigh T. Curtis.

Mr. GRAY. Check on June 27, 1929, for \$1,048.80.

(The check last above referred to was designated "Exhibit No. 13," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, June 27, 1929.*

No. 11865.

Pay to the order of Raleigh T. Curtis \$1,048.80 (\$1,048 and 80 cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)

To The National City Bank of New York, 55 Wall Street, New York, N. Y.  
(The last above check is indorsed as follows:) Raleigh T. Curtis.

Mr. GRAY. Check on July 2, 1929, for \$673.

(The check last above referred to by Mr. Gray was designated "Exhibit No. 14" and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, July 2, 1929.*

No. 17747.

Pay to the order of Raleigh T. Curtis \$673 (\$673 and 00 cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)  
MAX YASUMA.

The Bank of America, 44 Wall Street, New York.

(The last above check is indorsed as follows:) Raleigh T. Curtis.

Mr. GRAY. Check on July 8, 1929, for \$1,846.

(The check last above referred to by Mr. Gray was designated "Exhibit No. 15" and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, July 8, 1929.*

No. 17855.

Pay to the order of Raleigh T. Curtis \$1,846.  
(\$1,846 and 00 cts.)

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)  
MAX YASUMA.

The Bank of America, 44 Wall Street, New York.

(The last above check is indorsed as follows:) Raleigh T. Curtis.

Mr. GRAY. Check on July 10, 1929, for \$1,373.

(The check last above referred to by Mr. Gray was designated "Exhibit No. 16," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, July 10, 1929.*

No. 17882.

Pay to the order of Raleigh T. Curtis \$1,373.  
(\$1,373 and 00 cts.)

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER. (?)  
MAX YASUMA.

The Bank of America, 44 Wall Street, New York.

The last-above check is indorsed as follows: Raleigh T. Curtis.

Mr. GRAY. A check on July 11, 1929, for \$1,535.50.

(The check last-above referred to by Mr. Gray was designated "Exhibit No. 17," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, July 11, 1929.*

No. 17938.

Pay to the order of Raleigh T. Curtis, \$1,535.50 (1,535 and 50 cents).

Per pro BURNHAM, HERMAN & Co.,  
H. FRIEDLER. (?)  
MAX YASURA.

The Bank of America, 44 Wall Street, New York.

The last-above check is indorsed as follows: Raleigh T. Curtis.

Mr. GRAY. A check on July 24, 1929, for \$3,446.

(The check last above referred to was designated "Exhibit No. 18," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, July 24, 1929.*

No. 18387.

Pay to the order of Raleigh T. Curtis \$3,446 (\$3,446 and no cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER (?).

The Bank of America, 44 Wall Street, New York.

The last above check is indorsed as follows: Raleigh T. Curtis.

Mr. GRAY. A check on July 30, 1929, for \$1,080.

(The check last above referred to was designated "Exhibit No. 19," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, July 30, 1929.*

No. 18536.

Pay to the order of Raleigh T. Curtis, \$1,080 (\$1,080 and no cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER (?).  
MAX YASUNA.

The Bank of America, 44 Wall Street, New York.

The last above check is indorsed as follows: Raleigh T. Curtis.

Mr. GRAY. A check on March 14, 1930, for \$637.

(The check last above referred to by Mr. Gray was designated "Exhibit No. 20" and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, March 14, 1930.*

No. 16546.

Pay to the order of Raleigh T. Curtis \$637 (637 and no cents).

Per pro BURNHAM, HERMAN & Co.  
H. FRIEDLER (?).  
MAX YASUNA.

The National City Bank of New York, 55 Wall Street, New York, N. Y.

The last above check is indorsed as follows: Raleigh T. Curtis.

Mr. GRAY. Check on September 20, 1929, for \$517.50.

(The check last referred to by Mr. Gray was designated "Exhibit No. 21," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, September 20, 1929.*

No. 19310.

Pay to the order of Raleigh T. Curtis \$517.50 (517 and 50 cents).

The Bank of America, National Association, 44 Wall Street, New York.

Per pro BURNHAM, HERMAN & Co.  
MAX YASUNA.  
M. BURNHAM (?).

Indorsed on reverse of check: Raleigh T. Curtis, Tony Wamser (?).

Mr. GRAY. Check on May 3, 1929, for \$1,195.50.

(The check last referred to by Mr. Gray was designated "Exhibit No. 22," and appears in the words and figures following:)

BURNHAM, HERMAN & Co.,  
44 WALL STREET, NEW YORK CITY,  
*New York, May 3, 1929.*

No. 17251.

Pay to the order of Raleigh T. Curtis \$1,195.50 (\$1,195 and 50 cents).

H. FRIEDLER.  
M. BURNHAM (?).

The Bank of America, National Association, 44 Wall Street, New York.

Indorsed on reverse side of check: Raleigh T. Curtis, Tony Wamser (?).

Mr. GRAY. All those checks that I have shown you photostatic copies of are drawn for the amounts mentioned. They are checks of Burnham, Herman & Co., and are to the order of Curtis and indorsed by him. That is correct, isn't it?

Mr. CORNELL. Yes, sir.

Senator FLETCHER. Are you familiar with Curtis's signature?

Mr. CORNELL. Yes, sir.

Mr. GRAY. You examined Curtis with respect to them, didn't you?

Mr. CORNELL. Yes, sir.

Mr. GRAY. And he admitted that those checks were received by him from Burnham, Herman & Co. and indorsed by him?

Mr. CORNELL. Yes, sir.

Mr. GRAY. What explanation did Curtis give to you with respect to the rest of this money?

Mr. CORNELL. His explanation was that he gave no orders to buy or sell in this account and that Mr. Levenson was helping him buy his house and that it was a friendly gesture on Mr. Levenson's part and that it was not in payment for his writings.

Mr. GRAY. The same explanation that Mr. Levenson made here to-day?

Mr. CORNELL. Yes, sir.

Mr. GRAY. Of those checks it is to be noticed that they are all practically during the spring, summer, and fall of 1929, with the exception of one that goes down into 1930. That is correct, isn't it?

Mr. CORNELL. Yes, sir.

Mr. GRAY. Now, did you at the time examine the columns of "The Trader"? I don't know that we have it in the record, but first, you knew Curtis to be the individual who wrote a financial column in the New York Daily News and signed it "The Trader"—that is correct?

Mr. CORNELL. Yes, sir.

Mr. GRAY. Did you examine the columns of "The Trader" during the time that these various stock operations were being conducted by Mr. Levenson at Burnham, Herman & Co.'s to make a comparison with the articles themselves as opposed to the time when Levenson was operating in a particular stock?

Mr. CORNELL. I did.

Mr. GRAY. Did you or did you not find—I am speaking generally now first—during the time that Levenson was operating in a particular stock Curtis was writing articles boosting that stock?

Mr. CORNELL. Yes, sir.

Mr. GRAY. Levenson operated on the long side, didn't he?

Mr. CORNELL. Levenson both bought and sold. The majority of the stock which he sold was stock which he had taken down under a call which he had on the stock.

Mr. GRAY. Yes. In other words, his operations were for the purpose of increasing the price of the stock, though he may have bought and sold in the accomplishment of that purpose?

Mr. CORNELL. That was my impression.

Mr. GRAY. Now I wish you would tell this committee what the result of your investigation was with respect to the articles that were published by the Trader. I think you have some data there giving the time with respect to each one of these stocks, have you not?

Mr. CORNELL. Yes; I have in each particular stock the dates on which this Trader column suggested the purchase of the stock, and also the dates—

Mr. GRAY (interposing). Will you summarize each one of those situations for us? May I say to the committee that I have all of these clippings, but I do not think it is necessary to put all of them on the record when Mr. Cornell will answer questions as to whether they were in reference to certain stocks.

Mr. CORNELL. In reference to Celotex, the Trader column tipped this stock on April 27, April 29, April 30, and May 2, 1929. Three hundred shares of this stock were ordered by Mr. Levenson for the account of Curtis on May 1, 1929, and sold the same day. On May 2 Curtis received one of the checks marked as exhibit here for \$1,195.50.

Mr. Levenson had a call in this stock, had two calls in this stock, I think, and bought in all 14,400 shares of the stock, sold 33,900 shares of the stock, and exercised his call on 20,000 shares.

Total of this profit in that account was approximately \$109,000 and was split three ways between Mr. Levenson, his associate, and the firm from which he got the call.

Is that sufficient on that stock, Mr. Gray?

Mr. GRAY. Who was that firm?

Mr. CORNELL. Pynchon & Co.

Mr. GRAY. That is another brokerage house?

Mr. CORNELL. Yes.

Mr. GRAY. Since out of existence?

Mr. CORNELL. Yes, sir.

Mr. GRAY. Member of the stock exchange at the time?

Mr. CORNELL. They were.

Mr. GRAY. In other words, that brokerage house gave them a call, he handled the stock through the other brokerage house, and then it was split three ways; Levenson was one, the brokerage house that was giving the call was the other, and who was the third?

Mr. CORNELL. An associate of Mr. Levenson's, E. H. Rodney.

Mr. GRAY. An individual who was aiding him in the handling of the transaction?

Mr. CORNELL. Yes.

Mr. GRAY. Please go ahead.

Mr. CORNELL. In the case of Borg Warner, our record shows that "The Trader" tipped this stock on June 13, 15, 17, 21, 23, 27, and July 1; that Mr. Levenson ordered for "Traders" account on the 26th of June 300 shares of this stock, sold it the same day, and Curtis received a check for \$1,048.80 profit on the transaction.

Mr. Levenson's operations in that stock, buying and selling—I will put it, the net difference between the buys and sells on that stock were cleared by his exercise of his call on 12,000 shares and on 15,000 shares. Total sales were 27,740 shares and the purchases were 15,500. Profits of about \$51,000 were distributed between Mr. Levenson, Mr. Rodney, and the Bankamerica Blair Corporation.

Mr. GRAY. That is a trading corporation?

Mr. CORNELL. Yes.

Mr. GRAY. Of course, the brokerage house got all the commissions on it?

Mr. CORNELL. Yes.

Mr. GRAY. I mean the commissions went through the brokerage house and were paid by them first before the net profits were calculated?

Mr. CORNELL. Yes; that is right.

Mr. GRAY. You used the expression "The Trader tipped this stock."

Mr. CORNELL. Yes, sir.

Mr. GRAY. Possibly we know what you mean, but I would like to get it in the record, a clear definition of that, what you mean by "tipping the stock."

Mr. CORNELL. Recommending its purchase.

Mr. GRAY. Recommending its purchase?

Mr. CORNELL. Yes.

Mr. GRAY. And that is what you mean in connection with each of these instances where you are referring to his having on a certain date tipped any of these stocks?

Mr. CORNELL. That is correct.

Mr. GRAY. All right; go ahead.

Mr. CORNELL. In the case of Consolidated Aircraft "The Trader" tipped this stock April 29, 30, May 3, 7, 11, 13, 21, 25, June 5, 9, July 3, August 20, and September 15, 1929.

On May 4 Mr. Levenson transferred from his own account to the account of Curtis 500 shares of this stock at  $35\frac{1}{2}$ , which was below the market price on that day.

Mr. GRAY. In other words, he just made a present to Curtis by transferring from one account to the other of 500 shares of that stock?

Mr. CORNELL. Well, it was——

Mr. GRAY (interposing). When you say at  $35\frac{1}{2}$  you mean the fact that Levenson's account was credited with a transfer of that stock on the basis of \$35.50 a share, while the new account that was opened was charged with the rest of it at the same figure?

Mr. CORNELL. That is right.

Mr. GRAY. Yes.

Mr. CORNELL. This stock was sold the same day at the market price and a profit check of \$3,706.14 was transmitted to Curtis.

Mr. GRAY. Now, I want to get that clearly. Instead of that being a transaction of where either Curtis on his own behalf or Levenson for him ordered stock and they held it until it went up and then sold it and Curtis got the profit, this is a transaction where if Levenson had sold the stock that day on the market he would have gotten a certain price for it, but instead of doing that he transferred it to Curtis's account, then the broker sold it for Curtis and got the price that Levenson could have gotten for it and transmitted immediately a check to Curtis for the difference, which was \$3,447? Is that right?

Mr. CORNELL. I do not think that is quite the picture, Mr. Gray.

Mr. GRAY. All right now; what is there wrong in that? I mean to say in the account of just what happened?

Mr. CORNELL. In transferring the stock to Mr. Curtis's account Mr. Levenson's account received credit for that and Mr. Curtis's account was charged with it.

Mr. GRAY. I understand that.

The CHAIRMAN. Is there any difference between turning over so much cash and a check?

Mr. CORNELL. Because Levenson's account got credit for the stock as if they had made a sale.

The CHAIRMAN. It is just a question of keeping differences, is it not?

Mr. CORNELL. No; it is probably a sale at a price under the market.

Mr. GRAY. I can show it, Senator. I am trying to put it in plainer language in the record. As a matter of fact, the figures in this case, the first figure was  $35\frac{1}{2}$ , wasn't it?

Mr. CORNELL. That is right.

Mr. GRAY. What was the market figure at which it was sold, if you have it there?

Mr. CORNELL. I haven't got it here, Mr. Gray.

Mr. GRAY. All right. Well, the fact is this: Levenson had a certain number of shares of this particular stock on which he was long, which means he owned it. It was with the brokerage firm. That is the first step, isn't it?

Mr. CORNELL. That is right.

Mr. GRAY. Now, under his instructions the brokerage firm takes the stock out of his account and gives him credit for so many shares at the price of  $35\frac{1}{2}$ ?

Mr. CORNELL. That is right.

Mr. GRAY. That is correct. But the brokerage house transfers that stock to the account in the name of Curtis, and it is charged in that account at the same price that it is taken out of Levenson's account of  $35\frac{1}{2}$ . How many shares was it?

Mr. CORNELL. Five hundred, I think.

Mr. GRAY. Five hundred shares. And the profit was about thirty-four or thirty-five hundred dollars. Therefore, I think we can assume that the transfer was 500 shares; is it?

Mr. CORNELL. Five hundred shares; yes, on May 4, on one day.

Mr. GRAY. Then he must have made about 7 points on it?

Mr. CORNELL. There were two transactions, one on May 4 and one on May 11. May 11 was for 100 shares at 36.

Mr. GRAY. All right; let us confine ourselves to this transaction. After transferring that 500 shares of stock to the Curtis account the broker sold it for Curtis?

Mr. CORNELL. Yes, sir.

Mr. GRAY. And he got enough money to send Mr. Curtis a check for how much?

Mr. CORNELL. \$3,706.14.

Mr. GRAY. \$3,706.14. Now, if Levenson had so desired and he had no other reason than to just realize on that stock instead of transferring it to Curtis's account, all he had to do was to direct his broker to sell it; is that right?

Mr. CORNELL. That is right.

Mr. GRAY. And if his broker had sold it, Levenson would have had an additional profit in his account of \$3,706.14?

Mr. CORNELL. That is right.

Mr. GRAY. But by transferring it first to Curtis's account and then having it immediately sold by the brokers for Curtis and having them send Curtis a check, he just simply made Curtis a present of \$3,706.14, did he not?

Mr. CORNELL. I would say so.

Mr. GRAY. Yes. That is the picture, then.

The CHAIRMAN. But he did it in a very roundabout way?

Mr. GRAY. Well, of course, they all do that that way, Senator. He is not going to draw a check and sign it to Curtis's order.

Now will you go ahead with the other transactions?

Mr. CORNELL. Yes. The summary of purchases and sales of that stock shows 64,900 shares purchased, 39,300 shares sold, and his option exercised on the difference between those two figures.

Mr. GRAY. Yes.

Mr. CORNELL. The profits in this account were approximately \$194,000, split between Pyncheon & Co., Levenson, Rodney, and there was one check drawn against the account for \$15,000 to the order of Mr. Levenson marked "For the account of others."

Mr. GRAY. Who is Rodney?

Mr. CORNELL. An associate of Mr. Levenson.

Mr. GRAY. Does he own any publication service?

Mr. CORNELL. Not that I know of.

Mr. GRAY. Not that you know of. All right, go ahead.

Mr. CORNELL. On this account alone there were checks drawn to the order of Oscar Alexander and George F. Breen for \$18,000.

Mr. GRAY. You don't know what that was for?

Mr. CORNELL. No, sir. One B. E. Pollack got \$15,000.

Mr. GRAY. All right; go ahead.

Mr. CORNELL. Eisler Electric stock was tipped by "Trader" on June 14, 17, 19, 24, 30, July 11, 27, August 8, and September 21.

Mr. GRAY. 1929?

Mr. CORNELL. Yes, sir.

Mr. GRAY. All right; go ahead.

Mr. CORNELL. Levenson gave orders to buy this stock for Curtis on four different occasions—June 15, 300 shares; June 17, 200 shares; July 29, 500; and September 19, 500. In each case the stock was sold on the same day as it was purchased for Curtis's account, and Curtis received the following checks: On June 16, \$1,055.60; June 18, \$949.50; July 29, \$1,080; September 19, \$517.50.

The summary of Mr. Levenson's trading in that stock shows that he exercised his option on about 61,000 shares. He sold 131,000 shares, purchased 45,600 shares.

I want to correct that other statement. His total options were 85,400.

The profits on the stock amounted to \$379,000.

Mr. GRAY. Of course, it is obvious, Mr. Cornell, but at the same time I ask the question to put it in the record—the public bought this stock? It was sold on the open market to whoever wanted to buy it?

Mr. CORNELL. That is right. Mr. Levenson purchased a large part of it.

Mr. GRAY. That is, he purchased it on the exercise of his option for somebody else, but his net position after he got through with the transactions was that he had sold—and I don't want to use the word "dumped"—he sold to the public or that part of the public that wanted to buy a certain amount of stock over and above that which he bought?

Mr. CORNELL. That is right.



Mr. GRAY. Go ahead. And the stock which he bought a large part of it was composed of stock that he got on an option from some other brokerage house?

Mr. CORNELL. That is right.

Mr. GRAY. Yes.

Senator FLETCHER. It began to fall in September, didn't it, or after September?

Mr. CORNELL. This particular stock? Yes.

Mr. GRAY. I think you can say generally, in answer to Senator Fletcher's question, that all of these stocks have had a decided fall since then, can you not?

Mr. CORNELL. Yes. These operations were mostly at the peak at that time, the peak of the price.

Mr. GRAY. Yes.

Mr. CORNELL. The distribution of that profit of \$379,000 was that Levenson got about \$54,000 and received checks totaling \$30,000 marked "For the account of others."

Mr. GRAY. Nothing to indicate who those others are?

Mr. CORNELL. No, sir. The brokerage firm that gave him the call on that stock got \$168,000.

Mr. GRAY. What firm was that?

Mr. CORNELL. Bonner, Brooks & Co.

Mr. GRAY. Is that a New York Stock Exchange house?

Mr. CORNELL. I think they were. I am not positive on that.

Mr. GRAY. All right; go ahead.

Mr. CORNELL. One E. E. Cerf got \$19,000; Burnham, Herman & Co. got \$106,800.

Mr. GRAY. Does that represent part of the distribution of the profits to them?

Mr. CORNELL. Part of the distribution of the profits on this one particular stock.

Mr. GRAY. The brokerage house through which he was dealing was in on his deal on this particular stock?

Mr. CORNELL. They received a portion of the profits.

Mr. GRAY. Go ahead.

Mr. CORNELL. There were several other people that got small amounts on that stock.

Mr. GRAY. You need not bother with that.

Mr. CORNELL. On the Pitney Bowes—

Mr. GRAY (interposing). That is another stock?

Mr. CORNELL. Yes. That stock was tipped by "Trader" July 1, 3, 7, and 30, and on September 19.

Mr. GRAY. 1929?

Mr. CORNELL. Yes. On June 30 there was 300 shares of this stock transferred from Mr. Levenson's account to "Trader's" account at  $27\frac{3}{4}$  and sold for the account of Curtis the same day, with a profit of \$673, for which he received a check.

A summary of the account shows that Mr. Levenson sold 50,100 shares as against 35,000 which he purchased, and took down under his option 15,000 shares.

Mr. GRAY. Go right ahead, Mr. Cornell.

Mr. CORNELL. The profits on this stock were split between John J. Levenson, E. H. Rodney, and one Helen Fairfax, each receiving in excess of \$36,000.

Mr. GRAY. You don't know who Helen is?

Mr. CORNELL. I think she was instrumental in securing the option which was under the name of the International Development Co.

Profits totaled \$116,126.

Radio Products was a comparatively small operation, was tipped by "Trader" on February 20, 1930, on the 3d of March and on the 5th and 10th of March. There were 200 shares of this stock bought for the account of Curtis, on March 3 and sold on the same day at a profit of \$637.

Senator FLETCHER. For which he received a check?

Mr. CORNELL. Yes, sir.

Mr. GRAY. He received each one of these checks. We have already had them identified.

Mr. CORNELL. The total sales in this account were approximately 30,800, and the total buys 25,600. Mr. Levenson exercised his option on 5,200 shares of stock.

Mr. GRAY. What was the distribution of profits there?

Mr. CORNELL. Total profits of \$25,000 were distributed between Mr. Levenson, Mr. Rodney, and Leslie Herman.

Mr. GRAY. That is the last one of those stocks, isn't it?

Mr. CORNELL. No; there are two more here.

Mr. GRAY. Suppose you give them to me.

Mr. CORNELL. U. S. Finishing. This stock was tipped on approximately 15 days in July and August. There was 50 shares purchased for the account of Curtis on July 10, 100 shares on July 24, at prices approximating the call prices, which were below the then market prices. All of the stocks were sold for the account of Curtis at prices ranging from 20 to 30 points above the call price.

Mr. GRAY. Now, when he was given the opportunity to buy it at the call price, which was below the market, it must have been transferred from somebody else's account, was it not?

Mr. CORNELL. From the account of Levenson.

Mr. GRAY. From the account of Levenson. So there was a situation which was like the one that we described in detail, where Levenson had the stock transferred from his own account to Curtis's account at a very much lower figure than he could have gotten for it himself and then sold through Curtis's account and the profit given to Curtis; is that correct?

Mr. CORNELL. That is right. The checks Curtis received on these various transactions were \$1,846, \$1,373, \$1,535.50, and \$3,446.

Mr. GRAY. What was the distribution of profits there?

Mr. CORNELL. The total profits on this transaction were \$179,408.

Mr. GRAY. Who got it?

Mr. CORNELL. Pyncheon & Co. got in excess of 88,000, Mr. Levenson got in excess of 44,000, and 44,000 for the account of others not mentioned.

Mr. GRAY. Tell us the last transaction.

Mr. CORNELL. American Maracaibo was tipped by Trader on April 27, 28, 29; May 9, 12, and 15. I have no record of checks, transactions in Curtis's account, in that particular stock.

Mr. GRAY. All right. Now, let me ask you: These stocks were traded in what, on the curb or on the New York Stock Exchange?

Mr. CORNELL. Some were big-board stocks; some were curb exchange.

Mr. GRAY. By "big board" stocks you mean what is known as the New York Stock Exchange?

Mr. CORNELL. New York Stock Exchange.

Mr. GRAY. And none of these stocks were what are called important or pivotal stocks; isn't that true?

Mr. CORNELL. All of these stocks had at one time or other very spectacular rises. They were not the key stocks.

Mr. GRAY. They were not big stocks or key stocks?

Mr. CORNELL. No.

Senator FLETCHER. All listed stocks?

Mr. CORNELL. All listed; yes, sir.

The CHAIRMAN. They were not of large issue? That is what you mean for one thing. They were small corporations, comparatively?

Mr. CORNELL. I wouldn't say that, Senator. For instance, Celotex has rather large issuance of stock. Some of the others. But they were not what you might call leaders on the market.

Mr. GRAY. But they were stocks that were subject as much as any other stocks, if not more so, to the manipulation of traders like Mr. Levenson?

Mr. CORNELL. Yes, sir.

Mr. GRAY. They were speculative stocks and stocks that did have, as you say, phenomenal rises at times?

Mr. CORNELL. That is right.

Senator CAREY. Mr. Cornell, how did you happen to make this investigation?

Mr. CORNELL. On a complaint from a person who had purchased stock that was tipped in this newspaper.

Senator CAREY. There was a complaint about Mr. Curtis's activities in the newspaper?

Mr. CORNELL. The name of the column, not mentioning the name Curtis. Of course, the name "Trader" is a nom de plume.

Senator CAREY. And you were representing the attorney general of New York, were you, or your department?

Mr. CORNELL. Yes.

Senator CAREY. Was anything ever done about it by the New York authorities?

Mr. CORNELL. The News has not since that time definitely recommended the purchase of any stocks. That feature has been eliminated. The column is still published, "The Trader." This Curtis no longer conducts the column.

Senator CAREY. What is Mr. Curtis doing now?

Mr. CORNELL. I don't know.

Senator CAREY. You don't know whether he is writing financial news or not?

Mr. CORNELL. No; I do not.

Senator CAREY. That is all. There were no prosecutions?

Mr. CORNELL. No. The bureau of securities is not a criminal agency; it is a civil bureau.

Senator CAREY. Did you investigate any other papers?

Mr. CORNELL. Papers? No; not at that time.

Senator CAREY. I mean on transactions similar to this.

Mr. CORNELL. No. I got out of the attorney general's office shortly after that.

Mr. GRAY. Is Mr. Levenson here? That is all, Mr. Cornell.

Mr. LEVENSON. Yes; I am here, Mr. Gray.

Mr. GRAY. Will you come back and let me ask you another question?

Mr. LEVENSON. Yes.

**TESTIMONY OF JOHN J. LEVENSON, WHITE PLAINS, N. Y.—**

**Continued**

Mr. GRAY. Mr. Levenson, Mr. Cornell has indicated in some of his testimony here that in the distribution of these funds after some of these transactions of yours were closed a number of checks from time to time were drawn to your order and marked to the account of others.

Mr. LEVENSON. Yes; I can——

Mr. GRAY (interposing). Who were the others?

Mr. LEVENSON. I can't tell you now, Mr.——

Mr. GRAY (interposing). I don't expect you to be able to give me maybe details, but in a general way who they are.

Mr. LEVENSON. I can not tell you without looking at my records, but I can supply those names for you if you give me an opportunity to look it up.

Mr. GRAY. I wish you would supply those names for us.

Mr. LEVENSON. I can tell you generally, if you would like to know.

Mr. GRAY. Without mentioning them; yes.

Mr. LEVENSON. Those were people who were associated with me in the transaction.

Mr. GRAY. You mean stock exchange members?

Mr. LEVENSON. No; they were individuals.

Mr. GRAY. I know; but they were stock exchange members, some of the individuals?

Mr. LEVENSON. They might have been. I prefer to look it up. I can supply that.

Senator FLETCHER. How were they associated with you? What did they do about it?

Mr. LEVENSON. They just had an interest in the account.

Senator FLETCHER. Put up any money?

Mr. LEVENSON. No; they had an interest in the profit of the account.

Mr. GRAY. How did they get it? That is what Senator Fletcher wants to know, I presume. Why were they given an interest when they didn't put up any money?

Mr. LEVENSON. Nobody put up any money. I mean they were associates.

Mr. GRAY. Yes; I understand that. You did not actually have to put up any money because you were not buying the stock on the market but you were getting it through an option and a call; but did they have a similar interest to the interest that you had?

Mr. LEVENSON. Different people.

Mr. GRAY. Differently proportioned, yes.

Mr. LEVENSON. Different people, different interests.

Mr. GRAY. If it didn't cost anything to operate in this way why did you let those people in on it?

Mr. LEVENSON. Well, I had interest in some of their operations and it was a matter of reciprocity, because some of those people brought business to me.

Mr. GRAY. Any of those other people like the "Trader" Curtis?

Mr. LEVENSON. No, sir.

Mr. GRAY. By the way, you say Rodney, was it, is not a member of the stock exchange; or didn't I ask you?

Mr. LEVENSON. No; he was not a member of the stock exchange.

Mr. GRAY. Did he run a publication?

Mr. LEVENSON. No; he was a partner of the firm of Burnham, Herman & Co.

Mr. GRAY. He was a partner of the firm of Burnham, Herman & Co.?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. So the brokers through whom you dealt in these matters, and you paid the money, were your partners in most of these transactions?

Mr. LEVENSON. Mr. Rodney was in this transaction.

Mr. GRAY. Everything on the New York Stock Exchange is partnerships, isn't it? I mean to say, the firms are all partnerships?

Mr. LEVENSON. I will just say this, Mr. Gray—

Mr. GRAY (interposing). You say what I want to say.

Mr. LEVENSON. I want to explain it.

Mr. GRAY. My question is answered first. The stock exchange itself is an unincorporated association, is it not? Is that correct?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. And the various firms of brokers who are members of the stock exchange are all partnerships? None of them are corporations, are they?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. So that a member of the firm of Burnham, Herman & Co.—

Mr. LEVENSON (interposing). Had it for his individual account, not the firm account.

Mr. GRAY. No; most of them are too clever to do that; but his individual account in the transaction that went through his firm?

Mr. LEVENSON. Yes, sir.

Mr. GRAY. And he must have known, because he had an interest in your money, and therefore that you were giving some of it to Curtis?

Mr. LEVENSON. I don't know whether he knew it or not. I was managing the account, and I had—

Mr. GRAY (interposing). The authority to do it?

Mr. LEVENSON. Yes.

Mr. GRAY. In other words, he gave you carte blanche to do as you chose in connection with it? You did not have to account to him for the nineteen thousand and odd dollars that you gave to Curtis?

Mr. LEVENSON. That is correct; yes, sir.

Mr. GRAY. Did you tell him about it?

Mr. LEVENSON. I didn't have to account to him; no.

Mr. GRAY. Did you tell him about it?

Mr. LEVENSON. I don't think I did.

Mr. GRAY. Do you think he knew about it?

Mr. LEVENSON. I don't think he did. He might have.

Mr. GRAY. In other words, it was going through his books in his firm, and he was one of the partners, but you didn't have to account to him for it and you doubt whether he knew anything about it?

Mr. LEVENSON. I can not tell you, Mr. Gray, whether he knew it or not. He could have looked on his own firm's books and found it out.

Mr. GRAY. Rodney did not sign those checks. All right; that is all.

Mr. LEVENSON. Mr. Gray—

Mr. GRAY. Go ahead and make any statement you like.

Mr. LEVENSON. Mr. Gray, may I just make one statement, please?

Mr. GRAY. Go right ahead.

Mr. LEVENSON. I just want to say that Mr. Curtis—what I did for him, which I have indicated, was done as a matter of friendship, I did for other people who were not in any way connected with any publication.

Mr. GRAY. Have you got any more openings over there, anything you can do for me like that because I have examined you?

Mr. LEVENSON. I just want to make that statement.

Mr. GRAY. In other words, you have done it for others?

Mr. LEVENSON. I can prove it; yes, sir.

Mr. GRAY. I am not questioning your word. I was just wondering if I could get in on it.

Mr. LEVENSON. That was a time we were all pretty liberal.

The CHAIRMAN. The committee will adjourn until to-morrow at 10 o'clock and meet at 10 o'clock sharp. Mr. Levenson is released from the subpoena and is through so far as Mr. Gray is concerned.

(Thereupon, at 12.40 o'clock p. m., the committee adjourned, to meet at 10 o'clock a. m. of the next day, Saturday, May 21, 1932.)

# STOCK EXCHANGE PRACTICES

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SATURDAY, MAY 21, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on yesterday, in room 301, Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Townsend, Walcott, Carey, Couzens, Fletcher, and Glass.

Present also: William A. Gray, Esq., counsel of the committee.

The CHAIRMAN. The committee will come to order.

Senator BROOKHART. Mr. Chairman, before Mr. Gray begins the examination of a witness I want to make on the record a request: I desire Mr. Gray to find a case of one of these so-called pools, syndicates, or groups that Mr. Whitney himself regards as honest, and then investigate that case clear through to the end. In other words, I want to find out whether there is anything honest in this institution.

Mr. GRAY. Am I to understand, Senator Brookhart, that what you wish me to do is to communicate with Mr. Whitney, president of the New York Stock Exchange, and ask him to indicate to me a pool that he considers honest, so that I may then investigate that pool and show a picture of the transactions connected with it?

Senator BROOKHART. Yes.

Mr. GRAY. May I call attention to the fact that Mr. Whitney testified at one phase of the investigation that he did not know of the existence of such a thing as a pool. I am perfectly willing, of course, to communicate with Mr. Whitney in response to Senator Brookhart's request.

Senator BROOKHART. And afterwards didn't he recover somewhat from that failure of vision and show a little television?

Mr. GRAY. That is possible; but let me direct your attention to the fact that Mr. Whitney in all likelihood will say, although I am not entirely willing to prophesy what his answer to such a request would be, that he is the president of the New York Stock Exchange and does not have anything to do with pools, and that if I want to find out anything about pools I can examine the records of brokerage houses, which we have done.

Senator BROOKHART. Well, they have a governing board, as I understand it, haven't they?

Mr. GRAY. The New York Stock Exchange has a governing board, and it also has a business conduct committee for the purpose of keeping track of any transactions which they may view with disfavor and which they think they should investigate. I will add that

I have a memorandum of probably 50 or 60 pools, and I can investigate all of them, I mean if I am given ample time, and if you desire to call Mr. Whitney down here before the committee and ask him on the witness stand whether he considers this or that pool an honest one, we could then have his direct testimony on the point.

Senator BROOKHART. I should like you, Mr. Gray, if you can, to find one pool that Mr. Whitney, or the governing board or business conduct committee of the New York Stock Exchange, regards as honest.

Senator WALCOTT. These transactions go through the Stock Clearing Corporation, of which Mr. Whitney is president. That is what you have in mind, I presume.

Mr. GRAY. The transactions themselves as such do not go through the Stock Clearing Corporation, but the various deals of the day, of course, as you know, go through the Stock Clearing Corporation and will appear the next morning on the repayment sheets of the stock-clearing house.

Senator BROOKHART. Well, Mr. Gray, do the best you can to find one of these pools or groups or syndicates, and I don't care what they may call it, that they regard as being honest, and then we will look into it and see if there is such a thing as an honest pool.

Mr. GRAY. If the committee instructs me to communicate with Mr. Whitney and ask him to advise me with respect, and I will use a politer term when I communicate with him, some syndicate that he believes their operations to have been absolutely honest, I will do so. If he answers me by referring me to the syndicate or pool, I will call for an investigation to be made of it immediately, or whatever the committee instructs me to do.

The CHAIRMAN. Is that satisfactory, Senator Brookhart?

Senator BROOKHART. Yes; that is very satisfactory, indeed.

The CHAIRMAN. All right. Then the motion need not be put for the committee. We will proceed with the hearing.

Mr. GRAY. Mr. Warner will come to the committee table.

The CHAIRMAN. Mr. Warner, please stand, hold up your right hand, and be sworn. You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matter now under investigation by the committee, so help you God?

Mr. WARNER. I do.

The CHAIRMAN. Just be seated opposite the committee reporter.

**TESTIMONY OF HARRY M. WARNER, MOUNT VERNON, N. Y.,  
PRESIDENT OF WARNER BROS. PICTURES (INC.)**

The CHAIRMAN. You may proceed, Mr. Gray.

Mr. GRAY. Mr. Warner, will you give your full name for the record?

Mr. WARNER. Harry M. Warner.

Mr. GRAY. Where do you reside?

Mr. WARNER. Mount Vernon, N. Y.

Mr. GRAY. Did you say Mount Vernon, N. Y.?

Mr. WARNER. Yes, sir.

Mr. GRAY. What is your business, please.

Mr. WARNER. President of Warner Bros. Pictures (Inc.).



Mr. GRAY. Will you try to keep your voice up so that all the people around us here can hear you?

Mr. WARNER. Yes, sir.

Mr. GRAY. I believe you stated that you are the president of Warner Bros. Pictures (Inc.).

Mr. WARNER. Yes.

Mr. GRAY. And they are a moving-picture corporation?

Mr. WARNER. Yes.

Mr. GRAY. That is, a corporation that promulgates pictures?

Mr. WARNER. Yes.

Mr. GRAY. And your stock—that is, the stock of Warner Bros. Pictures (Inc.)—is on the New York Stock Exchange, is it not, for trading purposes?

Mr. WARNER. Yes.

Senator COUZENS. Mr. Counsel, before you go into that, will Mr. Warner please tell us what his occupation was before he went into pictures, and his experience?

Mr. GRAY. Answer Senator Couzens's question, please.

Mr. WARNER. I have been in the picture business for 28 years. Previous to that I had a trade. My father made me learn shoemaking as a youngster. And then I operated shoe stores, and then went into the picture business when it was first started.

Senator COUZENS. By yourself?

Mr. WARNER. By myself and one of my brothers. And at a later date put in the younger brothers as they became older.

Senator COUZENS. Have you made money out of the picture business?

Mr. WARNER. We have developed it to—

Mr. GRAY (interposing). Mr. Warner, please keep your voice up. It is difficult for people around here to hear you.

Mr. WARNER. We have made money—

The CHAIRMAN (interposing). The newspaper reporters are in back of you as well as in front of you, and they all want to hear what you say. Please talk up loud enough so everybody can hear you.

Mr. WARNER. We have made money out of the picture business; yes, sir.

Senator COUZENS. Have you made more money out of the picture business than you have made in the handling of your stocks?

Mr. WARNER. Well, it depends on just what you mean by that.

Senator COUZENS. Well, I mean that you have bought and sold your stocks. I will not use the word "manipulate," but you have handled the stocks of your corporations; and I was wondering whether you have made more money in that activity than in the actual producing and exhibiting of pictures.

Mr. WARNER. I would say that everything we have made we have made out of developing our business.

Senator COUZENS. Then you did not make any money out of buying and selling the stocks of your corporations.

Mr. WARNER. I would not say that.

Senator COUZENS. I was trying to find out whether you have made more money in the handling of the stocks of your corporations than you have in the moving-picture business.

Mr. WARNER. In answering that I would have to consider as to the value of our interest in the company at different times.

Senator COUZENS. But you have made money in buying and selling the stocks of your corporation outside of the mere moving-picture business, have you not?

Mr. WARNER. I have bought and sold stocks; yes. You see it is pretty hard for me to answer that question because the business was a partnership up until 1925 of just we four brothers, and when it was incorporated we got an exchange out of 700,000 shares for our interest in the business at the time.

Senator TOWNSEND. How much money did you four brothers have in the business, how much capital?

Mr. WARNER. It is pretty hard to say, because you might as well say it was a lifetime work, developing it as we went along.

Senator COUZENS. What I was trying to develop was this: It appears that many directors and managers of corporations are more interested in the handling or manipulation of their own stocks than they are in actually performing the business in which they are ostensibly engaged. So I want to know just in which category you come in reference to your business.

Mr. WARNER. We positively are interested in developing our business, from its start until this very day.

Senator COUZENS. That is all that I wish to ask at this time, Mr. Gray.

The CHAIRMAN. You may proceed with the witness, Mr. Gray.

Mr. GRAY. Mr. Warner, you formed your corporation, I believe, in 1925?

Mr. WARNER. I think so.

Mr. GRAY. And what was the capital invested in the corporation when it was formed?

Mr. WARNER. Well, our years of work; and I think the audit of Price, Waterhouse & Co. will really show that.

Mr. GRAY. I am not talking about your years of work as a part of the capitalization of the company. But what was your financial structure; what was your set-up when the company was formed?

Mr. WARNER. We owned a lot of plants, pictures, and so on.

Mr. GRAY. What was your first stock issue?

Mr. WARNER. At the time of 1925?

Mr. GRAY. Yes. I mean what was your quantity of stock?

Mr. WARNER. Oh; 550,000 shares, of which we took 300,000 shares, if I remember correctly, and 250,000 shares remained in the treasury.

Mr. GRAY. Of what kind of stock?

Mr. WARNER. All common.

Mr. GRAY. Did it have a par value?

Mr. WARNER. I think it was no par stock.

Mr. GRAY. You think it was no par stock?

Mr. WARNER. Yes.

Mr. GRAY. And you got 300,000 shares of that stock, or a majority interest, for the business that you had built up to that point of time?

Mr. WARNER. Yes.

Mr. GRAY. Were there other issues of stock thereafter?

Mr. WARNER. At later dates; yes.

Mr. GRAY. What were the other issues of stock?

Mr. WARNER. When we acquired the Stanley Co., and I think it was in 1929 or in 1928, and I am not sure which——

Mr. GRAY (interposing). That is, you mean the Stanley Co. of America?

Mr. WARNER. Yes, sir.

Mr. GRAY. In order that we may have the record show it clearly let me ask: They were another moving-picture corporation?

Mr. WARNER. They were a theater-owning corporation.

Mr. GRAY. They owned a number of theaters around the country?

Mr. WARNER. Yes; about 200, I believe.

Mr. GRAY. Now, go ahead with your answer. What was your issue of stock then?

Mr. WARNER. We increased the capitalization of the company, and gave them a certain number of shares of stock for their shares.

Mr. GRAY. And you increased the capitalization of Warner Bros. Pictures (Inc.) to what?

Mr. WARNER. I think it was seven and a half million shares.

Mr. GRAY. Seven and a half million shares altogether, including the original issue of 550,000 shares?

Mr. WARNER. Yes, sir; but you understand they were not all issued.

Mr. GRAY. All right. We will come to that a little later. And of those seven and a half million shares, how many shares were given to the Stanley Corporation of America for their interest?

Mr. WARNER. Well, if I attempted to answer I would be guessing. I would rather refer to some records that we have here that will show that fact.

Mr. GRAY. All right. If you have some records you may refer to them. And if you want the assistance of some one else, you may have it, and they may bring those records over to you at the committee table.

Mr. WARNER. I thank you. Mr. Schneider, will you just step over here?

Mr. GRAY. That is all right. Come around to the committee table and take a seat beside Mr. Warner.

Mr. WARNER. I will say that Mr. Schneider is my right-hand man.

Mr. GRAY. For the purpose of the record, please let us have Mr. Schneider's name in full.

Mr. SCHNEIDER. My name is Samuel Schneider.

Mr. GRAY. I am sure the committee will not object to Mr. Schneider sitting near you there and giving you any assistance with the records of the company that you may desire.

Senator COUZENS. There is one point I want to know before you go further, Mr. Gray.

Mr. GRAY. Certainly, Senator Couzens.

Senator COUZENS. Mr. Warner, when you first got your 300,000 shares of Warner Bros. Pictures (Inc.), you say the remaining issue was kept in the treasury?

Mr. WARNER. Yes.

Senator COUZENS. How soon after that did you sell any of it?

Mr. WARNER. I will tell you as soon as Mr. Schneider can look it up in the papers he has here.

Senator COUZENS. All right.

Mr. GRAY. Now go ahead, Mr. Warner, and answer Senator Couzens's question.

Mr. WARNER. I find that I made a mistake at the beginning of my testimony. The first issue of the corporation was 350,000 shares of common and 200,000 shares of A stock. Or was it that, Mr. Schneider?

Mr. SCHNEIDER. No. The first issue of stock was 550,000 shares of common and 200,000 shares of A.

Mr. GRAY. In other words, Mr. Warner, you now desire to correct your original answer by adding the statement that, in addition to the 550,000 shares of common stock issued by Warner Bros. Pictures (Inc.), there were 200,000 shares of another stock known as A stock issued, is that right?

Mr. WARNER. No, sir; I believe that is not right either.

Mr. GRAY. Well, I so understood it.

Mr. WARNER. You must remember that this was a long time ago. We have an attorney here and he might answer that.

A BYSTANDER. Mr. Warner, the Standard Statistics are there on that yellow slip. You can refer to that.

Mr. WARNER. I would answer this subject to my obtaining the actual figures, that the corporation had 550,000 shares of stock, of which 200,000 shares were class A, or 250,000 shares were class A, and I am not so sure on that one point.

Senator COUZENS. What did you do with the class A stock?

Mr. WARNER. We afterwards sold it to Goldman, Sachs & Co., and McClure, Jones & Co.

Senator WALCOTT. Was there any preference provision in that stock certificate? In other words, did it supersede what you called the common stock as to dividends or rights or anything else?

Mr. WARNER. I think it did.

Mr. SCHNEIDER. It was \$10 par stock.

Senator COUZENS. How soon after the organization of Warner Bros. Pictures (Inc.) did you sell the A stock?

Mr. WARNER. I would say some time about a year later.

Senator COUZENS. So when you first incorporated the business and took over 300,000 shares for your control, you did not sell any to the public at that time or dispose of any of that stock?

Mr. WARNER. Only to just a few friends. I think we disposed of about 25 or 30 shares to some friends at \$10 a share and guaranteed to take it back at \$11 a share at the end of the year in case they did not want to continue to own it.

Senator TOWNSEND. This was in 1925 that you are now talking about?

Mr. WARNER. I think it was. We gave away to some people that had been with the company some of our stock; I mean to some of our employees.

Senator COUZENS. How soon did the stock go on the New York Stock Exchange?

Mr. WARNER. I think it went on the curb exchange first and then went onto the New York Stock Exchange later.

Senator COUZENS. Is there anybody here who is more familiar with the organization and handling of your affairs than you are?

Mr. WARNER. Well, the attorney would possibly be more familiar with this than I am.

Mr. GRAY. Senator Couzens, would you like for me to withdraw Mr. Warner and get the attorney to come forward to answer your questions?

Senator COUZENS. I do not want to interfere with your program.

Mr. GRAY. What I want to do, Senator Couzens, is to develop the situation along as it came down to January 1, 1930, and then to establish some things.

Senator COUZENS. Well, go ahead. Perhaps what I was going to ask Mr. Warner is not important at this time.

Senator GLASS. What I should like to know is: How is this matter involved in stock-exchange operations?

Mr. GRAY. One of the things, Senator Glass, that the committee required me or requested me to examine into was the selling of their own stock by officers of corporations. And I am going to establish, I believe, by my examination of Mr. Warner, first, what the holdings of the stock in his own company were on the 1st day of January or approximately that point of 1930. Then establish the fact that through various undercover channels and not through direct selling and by covering transactions so the public would not know who had sold the stock while certain journals were boosting the value of the stock before the public. And that when the time came that he had disposed of a certain quantity of stock the newspapers then started to depress, so far as the public was concerned, the value of Warner Bros. stock and he went into the market and bought it again, making, as I shall show you, by that transaction—and I think it all occurred during 1930—a profit in dealing in his own stock of \$9,251,454.50.

Senator GLASS. Was that done on the stock exchange?

Mr. GRAY. Yes; and through various brokerage houses and through various accounts which I believe Mr. Warner will admit to be his own, but in other names.

Senator COUZENS. I think you might go ahead, as far as I am concerned.

Mr. GRAY. Shall I proceed?

Senator COUZENS. Yes; as far as I am concerned.

Senator GLASS. All right.

The CHAIRMAN. You may proceed, Mr. Gray.

Mr. GRAY. Mr. Warner, you have told us of the issue of 7,500,000 shares of Warner Bros. Pictures (Inc.), and I do not know whether you can answer me off-hand as to how much of that stock went to the Stanley Co. of America. If you are able to answer it, please do so; and if not able to answer, say you can not answer it at the present time.

Mr. WARNER. There is a record of it here.

Mr. GRAY. All right. How much of that stock went to the Stanley Co. of America?

Mr. SCHNEIDER. I think 780,000 shares—well, this record shows—

Mr. GRAY (interposing). We do not want a long explanation.

Mr. SCHNEIDER. This record shows every share issued up to date.

Mr. GRAY. Then hand it to the committee reporter and let it be marked for the record.

Mr. SCHNEIDER. All right.

(An individual report section of Standard Corporation records, by Standard Statistics Co. (Inc.), revised to January 7, 1931, to

cover Warner Bros. Pictures (Inc.), was furnished for the record and marked "Committee Exhibit No. 24, May 21, 1932," and will be printed in the appendix.)

Mr. SCHNEIDER. This little pamphlet shows the issuance to the Stanley Co. of America of certain stock for their issue of preferred stock right up to the date shown here, where a certain amount of shares are outstanding.

Mr. GRAY. How much common stock was outstanding on the 1st of January, 1930? That is the figure that I do want.

Mr. SCHNEIDER. I do not know.

Mr. WARNER. I would say around 2,500,000 shares.

Mr. GRAY. That was outstanding at that time?

Mr. WARNER. Yes.

Mr. GRAY. That includes stock that had been issued in its entirety?

Mr. WARNER. I would be guessing at the figures you are asking me now to give. They are all matters of record in the books of the company, and it would be very hard for me to sit here and give you the exact details as to the issuance of shares, because the company was developing and had been obtaining different theaters and other companies, for stock.

Mr. GRAY. And it had been issuing stock to pay for those transactions?

Mr. WARNER. Yes, sir.

Mr. GRAY. And how much?

Mr. WARNER. Well, there again I would be just guessing.

Mr. GRAY. All right. For the present let me ask you in regard to yourself: How much stock in Warner Bros. Pictures (Inc.) did you own around January 1, 1930?

Mr. WARNER. Perhaps Mr. Schneider has that figure.

Mr. SCHNEIDER. That is exactly 303,484 shares.

Mr. GRAY. Did you say 303,484 shares?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. Now, Mr. Warner, you are adopting, I take it, the statements that Mr. Schneider here may make as your own testimony?

Mr. WARNER. That is correct.

Mr. GRAY. Now, that stock was yours personally?

Mr. WARNER. My brothers' and my own.

Mr. GRAY. Was the stock of yourself and your brothers all practically in one account?

Mr. WARNER. Warner Bros. personally have always construed themselves as one.

Mr. GRAY. And this Warner Bros. consisted of yourself and what other brothers?

Mr. WARNER. Albert Warner and J. L. Warner.

Mr. GRAY. Did you say Albert Warner and J. L. Warner?

Mr. WARNER. Yes, sir.

Mr. GRAY. So that when you answer me with respect to your holdings you are answering me with respect to the joint holdings of all three brothers?

Mr. WARNER. That is correct.

Mr. GRAY. And when you bought and sold any of this stock it was bought and sold for the three brothers; is that correct?

Mr. WARNER. That is correct.

Mr. GRAY. So there were a little over 300,000 shares that you owned; and when I use the pronoun "you" from now on in the testimony I am referring to the three of you.

Mr. WARNER. Yes, sir.

Mr. GRAY. In the early part of January of 1930.

Mr. WARNER. Yes, sir.

Senator COUZENS. At this point, let me ask: Is that 300,000 in addition or does that relate to the 550,000 shares?

Mr. WARNER. Yes.

Senator COUZENS. So that you controlled the enterprise with but a little over 10 per cent of the shares, is that right?

Mr. WARNER. Yes, sir.

Senator FLETCHER. What was the par value of the stock?

Mr. GRAY. No par value. That was testified to before you came into the room, Senator Fletcher.

Senator FLETCHER. All right.

Senator BROOKHART. Was this voting stock as compared to some other nonvoting stock?

Mr. WARNER. It was all one kind of stock so far as voting was concerned.

Senator BROOKHART. How did you control the organization then?

Mr. WARNER. I did not control it.

Senator BROOKHART. But that is what you told Senator Couzens.

Mr. WARNER. Senator Couzens asked me whether—

The CHAIRMAN (interposing). Talk up a little louder, Mr. Warner, so all these newspaper men around here can hear you.

Mr. WARNER. I was asked whether I controlled the stock with 10 per cent. I did not control the stock.

Senator COUZENS. No; that was not my question. I asked you if you or your brothers controlled Warner Bros. Pictures (Inc.).

Mr. WARNER. No, sir.

Senator COUZENS. Who did manage and control the company?

Mr. WARNER. The board of directors.

Senator COUZENS. Who were the board of directors?

Mr. WARNER. They were the three brothers, Mr. Abel Cary Thomas, Morris Wolf—

Mr. GRAY (interposing). Morris Wolf is the attorney in Philadelphia who represents Warner Bros. Pictures (Inc.)?

Mr. WARNER. Yes, sir. And Waddill Catchings—

Mr. GRAY (interposing). He is a member of the New York Stock Exchange and was formerly connected with Goldman, Sachs & Co., brokers?

Mr. WARNER. Yes, sir.

Mr. GRAY. And Goldman, Sachs Trading Corporation also?

Mr. WARNER. Yes, sir.

Mr. GRAY. Anybody else?

Mr. WARNER. Henry A. Rudkin, of McClure, Jones & Co.—

Mr. GRAY (interposing). Another brokerage house?

Mr. WARNER. Yes, sir.

Mr. GRAY. And members of the New York Stock Exchange?

Mr. WARNER. Yes, sir.

Mr. GRAY. Go ahead.

Mr. WARNER. Moe Mark.

Mr. GRAY. Who is he?

Mr. WARNER. He was a part of the Stanley Co. of America at the time we acquired them. And Stanley Friedman.

Mr. GRAY. He is your attorney?

Mr. WARNER. Yes, sir. Mr. Thomas and Mr. Friedman are our attorneys.

Mr. GRAY. Is that all?

Mr. WARNER. I think that is all.

Senator COUZENS. So, as a matter of fact, how many members of the board of directors altogether were there?

Mr. WARNER. Out of 11 directors we were 3 brothers, and when my son was alive he was a fourth that we had.

Senator COUZENS. So in effect you had control of the board, did you not?

Senator TOWNSEND. And your attorney is a fifth member?

Mr. WARNER. I would not say my attorney. The attorney for the company.

Mr. GRAY. Well, there is no doubt about it that your brothers and yourself did control the policy of the company whether you owned 10 per cent of the stock or how much you may have owned.

Mr. WARNER. We designated the operation of the company; yes, sir.

Senator COUZENS. I desire again to lay emphasis on the fact that, with but a little over 10 per cent of the stock of Warner Bros. Pictures (Inc.) the Warner brothers controlled the destiny of that corporation. There is no denying that fact, according to the testimony before the committee, as I understand it.

Mr. GRAY. No.

Mr. WARNER. I would say subject to the board of directors.

Senator COUZENS. Well, the board of directors were the Warner brothers and their friends.

Mr. WARNER. I would not say that.

Senator COUZENS. Well, let us get that straight.

Mr. GRAY. Mr. Warner, you did not have any antagonistic interests on your board of directors, did you?

Mr. WARNER. Not that I know of.

Senator COUZENS. As a matter of fact every member of the board of directors was selected by Warner brothers. There is no question about that according to the way I see the situation.

Mr. GRAY. There was no other financial group or large group of stockholders, as I recall it, who picked out any of these directors, or at least they did not pick out a majority of them.

Mr. WARNER. In the transactions that took place at later dates which enlarged the company these different men were added.

Mr. GRAY. But it still left Warner brothers and their friends in control?

Mr. WARNER. In 1930 Richard F. Hoyt, of the firm of Hayden, Stone & Co., became a director. Here is a complete list of directors as of January 31, 1931.

Senator COUZENS. Did you say that that is a complete list of directors as of January 31, 1931?

Mr. WARNER. Yes, sir.

Senator COUZENS. May we have that made a part of the record, Mr. Chairman?

The CHAIRMAN. Yes. That will be done.



Mr. GRAY. As I understand it, Senator Couzens, that is a part of the same yellow pamphlet introduced a while ago as committee Exhibit No. 24. Is that right, Mr. Warner?

Mr. WARNER. Yes, sir.

Senator COUZENS. All right. Then we have that information in our record.

Mr. GRAY. Now, Mr. Warner, you bought and sold—and I am again using the personal pronoun “you” as referring to yourself and your brothers; is that true?

Mr. WARNER. Yes, sir.

Mr. GRAY. Stock of Warner Bros. Pictures (Inc.) during the year 1930 you bought and sold, did you not?

Mr. WARNER. Yes, sir.

Mr. GRAY. In order that we may first understand through what accounts and what brokerage houses you traded, will you tell the committee through what brokers your transactions were carried?

Mr. WARNER. Well, the books would show that.

Mr. GRAY. If you can answer my question, Mr. Warner, please do so. And if you have here any books in regard to that matter you may refer to the books in order to enable you to answer.

Mr. WARNER. We have brought the books here.

Mr. GRAY. Will you look at them and answer my question, please?

Mr. WARNER. Yes, sir.

Mr. SCHNEIDER. Can I answer that question, Mr. Gray?

Mr. GRAY. I have no objection to Mr. Schneider answering the question if Mr. Warner will adopt such answers as his own testimony. Do you do that, Mr. Warner?

Mr. WARNER. Yes, sir.

Mr. SCHNEIDER. Now, do you want me to read off the brokers?

Mr. GRAY. Now, in 1930 I refer to.

Mr. SCHNEIDER. Samuel Ungerleider & Co., Goldman, Sachs & Co., Schatzkin & Co., Ira Haupt & Co., Ernst & Co. Those were the principal ones.

Senator TOWNSEND. Were they all members of the stock exchange?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. Will you tell me, Mr. Warner, if you please, in what name those accounts were kept?

Mr. SCHNEIDER. We used the names of Moe Rosenberg, Harry Charnas.

Mr. GRAY. Yes.

Mr. SCHNEIDER. Harry M. Warner.

Mr. GRAY. Yes.

Mr. SCHNEIDER. Albert Warner.

Mr. GRAY. Yes.

Mr. SCHNEIDER. Lewis Warner. I do not recall any others. If you will name any others maybe I can recall them.

Mr. GRAY. Let me ask you first, and then I will name them or suggest them to you. Your principal trading was with Schatzkin & Co., was it not?

Mr. SCHNEIDER. I think during 1930 we did more trading through them; yes.

Mr. GRAY. And you had an account known as No. 72 account (H. M. Warner), didn't you?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And you had a Harry M. Warner account outside of that?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And you had an account Albert Warner?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And you had an account Albert Warner, special?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And you had an account Albert Warner No. 2?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. All right.

Senator COUZENS. Why did you have so many different accounts?

Mr. SCHNEIDER. For this reason, that whenever we traded we had found by past experience that when we bought and sold stock in the name of Harry M. Warner or Albert Warner it would influence people, and we figured that by using other names nobody would be influenced by seeing the other names. That was the only reason we had for using these other names. At times we used the names of Harry M. Warner and Albert Warner and that was when we dealt in other securities, so that we did not care.

Mr. GRAY. So that your transactions in Warner Bros. Pictures (Inc.) stock in the year 1930 went principally through the accounts of Moe Rosenberg and Harry Charnas; is that correct?

Mr. SCHNEIDER. I think so.

Mr. GRAY. There was another thing that you did also in order to cover up your transactions and not let the public know what you were doing, and that was this, was it not: That when you sold—

Mr. SCHNEIDER (interposing). Excuse me so as to have the matter entirely straight. When I said that we did that I meant that it was not for the purpose of not letting the public know what we were doing; it was for the purpose of not letting brokers know what we were doing.

Mr. GRAY. Was that in order that brokers might not take advantage of your selling stock and so advise their customers, and that there might not be buying or trading by the public along the lines you were trading?

Mr. SCHNEIDER. It was so they would not be influenced by what we were doing.

Mr. GRAY. Influenced in what way?

Mr. SCHNEIDER. In any way.

Mr. GRAY. All right. We will now leave that for the present. The thing you did was that when you sold any stock belonging to this Warner group, after the sale was made your brokers got in touch with the other brokers to whom or for whose clients they made the purchase, and got them to give you the information, I mean give your brokers the information as to the name in which they wanted the stock transferred, didn't they?

Mr. SCHNEIDER. I did not quite get that.

Mr. GRAY. Well, now, say you make a sale of 25,000 shares of stock through Schatzkin & Co. Under ordinary circumstances you know enough about the brokerage business and stock-market transactions to know that what you would do would be to deliver your certificates to Schatzkin & Co., and in the adjustment through the stock clearing house those certificates would be delivered, or others to the broker-

age house that bought the stock from Schatzkin & Co. That is correct, isn't it?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And if that had been done, and if there had been certificates in the name of Harry M. Warner, or Albert Warner, or any of the other Warners, which had to be transferred, then the broker would also know that the Warners were trading.

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. So that in order to prevent that knowledge getting out and influencing anybody, Schatzkin & Co. always arranged to find out to whom the stock was to be transferred, and they had the transfers made themselves and delivered the certificates, isn't that correct?

Mr. SCHNEIDER. No, sir.

Mr. GRAY. Tell me what they did.

Mr. SCHNEIDER. With our original stock we had temporary certificates, and then we had certificates in the names of women, not deliverable. They called them not good delivery. And in order for one of these cases—well, they would have to deliver them first. They would transfer them in another name invariably without getting authority from us, and deliver them in the other names, and also for the purpose of not influencing people.

Mr. GRAY. That was for the purpose of not influencing people, you say.

Mr. SCHNEIDER. That is true.

Mr. GRAY. You had the stock in Mr. Warner's name?

Mr. SCHNEIDER. Yes, sir; but it was not good delivery. Instead of transferring them right back to the name of Harry M. Warner, or whatever the case might be, he would transfer them to Schatzkin & Co., and other people in his place, also for the purpose of not influencing people in what we were doing.

Mr. GRAY. In other words, in no instance were any certificates belonging to any of the Warners transferred directly?

Mr. SCHNEIDER. Oh, yes.

Mr. GRAY. Do you mean that they were transferred on the books of the registrar?

Mr. SCHNEIDER. Oh, yes.

Mr. GRAY. Through the brokerage house?

Mr. SCHNEIDER. Oh, yes. We had many certificates in his name delivered, but at certain times they would be transferred under another name.

Mr. GRAY. And that was to prevent brokers and the public knowing the Warners were selling stock?

Mr. SCHNEIDER. For the purpose of not influencing anybody by what we were doing at any time.

The CHAIRMAN. Well, that is the same thing.

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. Mr. Warner, will you tell me now what your transactions were in 1930 through Schatzkin & Co.?

Mr. WARNER. The records are here.

Mr. SCHNEIDER. Perhaps I can look them up and give them to you.

Mr. GRAY. I should like Mr. Warner to answer these questions if he can, and if he has the records he can do it as well as you can, I

take it, Mr. Schneider. Mr. Warner, did you sell your stock in January of 1930?

Mr. WARNER. According to the record that we have here I believe it is shown by the days.

Mr. GRAY. I ask you whether or not through Schatzkin & Co. in January of 1930 you didn't sell 55,000 shares of Warner Bros. stock; that is, during that month, and then during the same month buy back 7,800 shares?

Mr. WARNER. If the books say so, I will answer yes.

Mr. GRAY. Well, I can say to Mr. Warner and also to the committee, that in order to investigate these transactions we went into the stock clearing house, and ultimately into some 25 brokerage houses, and finally located these accounts, of which I have photostatic copies; that the result of the examination by the accountants, and their additions and calculations made therefrom, show that in these various accounts that have been admitted by Mr. Warner to have been his accounts, there were sold in the month of January of 1930, 55,000 shares of Warner Bros. Pictures (Inc.)—and, of course, Mr. Warner, if you have not a summary there it may not show the total, and I will say that it took us some time to make up our summary.

Mr. SCHNEIDER. We brought with us photostatic copies of every account in the books, showing every transaction in Warner stock during 1930.

Mr. GRAY. Answer the question.

Mr. SCHNEIDER. I made a summary of all transactions during 1930—

Mr. GRAY (interposing). Not by brokers but a summary.

Mr. SCHNEIDER. I made a summary of all transactions during February of 1930, and I may have included some in January.

Mr. GRAY. Because of your inability to answer the question with respect to January from your records, I will take you to February. As a matter of fact in February of 1930, isn't it true that you sold 137,950 shares of your stock and bought none?

Mr. SCHNEIDER. No. The record that I have here shows 144,000 shares.

Mr. GRAY. That is more than we have. Is that shown as sales?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And that you bought none?

Mr. SCHNEIDER. We bought none according to this record. And according to what we have here we sold a little more than you show.

Mr. GRAY. May I pause in this investigation to ask Mr. Warner why you were selling your own stock?

Mr. WARNER. Well, there were two reasons at that particular time. One reason was that we wanted to diversify some of our holdings and buy some other kinds of securities. And the second reason was that the company might be requiring some cash, and we wanted to have some cash on hand to loan them, which practically we had done from the time of the inception of the corporation.

Mr. GRAY. So this was your principal business, and this was the business that, through the holdings you had, you were controlling and managing. Were you intending to part with your interest in the future?

Mr. WARNER. No, sir.

Mr. GRAY. Was it your intention——

Mr. WARNER (interposing). Well, I have already said I intended to part with some of our interests.

Mr. GRAY. Was it your intention to buy it back again?

Mr. WARNER. Why, it was all depending.

Mr. GRAY. Depending on what?

Mr. WARNER. On the conditions of the world.

Mr. GRAY. In other words, you did not know whether you would buy it back again or not when you sold it?

Mr. WARNER. But I bought it back.

Mr. GRAY. I will come to your buying back in a moment.

Mr. WARNER. I would not want to say what my thoughts were at the time I sold it, with the exception that the company would probably need some cash, as I answered previously.

Mr. GRAY. So that out of your holdings of 300,000 shares of Warner Bros. Pictures (Inc.), and your being unable to tell me what you sold in January of 1930, and with the records of Schatzkin & Co. showing you sold 47,200 shares more than you bought that month, and that in February of 1930 you sold 144,000 shares in addition and bought none, that meant parting with more than half of your holdings, is that correct?

Mr. WARNER. That is right.

Senator FLETCHER. What were the prices of that stock?

Mr. GRAY. I will ask him all along when I come to that, and will show you the relevancy of it.

Senator FLETCHER. All right.

Mr. GRAY. Mr. Warner, you say the company was needing money. Was the company in bad shape at that time?

Mr. WARNER. No. But it was acquiring different properties and enlarging at the time.

Mr. GRAY. Did you loan to the company any of the money that you got from the sale of your stocks?

Mr. WARNER. I did.

Mr. GRAY. In what month and in what amounts?

Mr. WARNER. Let me see, now.

Mr. SCHNEIDER. Are you referring just to 1931?

Mr. GRAY. Yes.

Mr. WARNER. In the month of May I let them have \$500,000, and in the month of June \$400,000, and in the month of July \$2,000,000, and in the month of August \$465,000.

Mr. GRAY. Is that all in 1930?

Mr. WARNER. Yes; in 1930.

Mr. GRAY. Was any of that money paid back to you in 1930?

Mr. WARNER. It was paid back to me in 1930 in the shape of debentures of the company.

Mr. GRAY. Of what company?

Mr. WARNER. Of Warner Bros. Pictures (Inc.).

Mr. GRAY. I thought you said the debentures "of a company"?

Mr. WARNER. No; it was paid back to me in the debentures of the company at 93, and I still have them.

Senator COUZENS. And that was a preferred claim upon the company?

Mr. WARNER. The debentures were issued at a later date.

Senator WALCOTT. I suppose you mean that you had previously held the notes of Warner Bros. Pictures (Inc.)?

Mr. WARNER. Yes; I had held the notes of the company, and they substituted the debentures for the notes.

Senator WALCOTT. And I suppose at 6 per cent?

Mr. WARNER. The notes were at the bank rate, sometimes half a point or a point less than the bank rate.

Senator COUZENS. So in effect you sold your stock, which had no claim against the company of a preferred nature, and then took a preferred claim against Warner Bros. Pictures (Inc.), in the form of their debentures?

Mr. WARNER. I did not give it a thought at that time in that way.

Senator COUZENS. Well, that is what happened, is it not?

Mr. WARNER. Well, I would rather have had the note than the debenture, because the note was payable possibly on demand or within a short time, and the debenture was a 9 or 10 year proposition.

Senator COUZENS. I mean that you sold your stock of the company and received debentures?

Mr. WARNER. Yes, sir.

Senator WALCOTT. You sold your stock of Warner Bros. Pictures (Inc.), and got the cash and then loaned them the cash?

Mr. WARNER. Yes, sir; and at a certain time took their debentures for it.

Mr. GRAY. If it was for the purpose of getting money into your possession so that you might loan it to Warner Bros. Pictures (Inc.), why didn't you borrow the money on your stock?

Mr. WARNER. I did not—we never—hardly ever borrowed money. I don't remember borrowing any money on stocks.

Mr. GRAY. I did not ask you whether you ever did it or not. I am asking you why you did not instead of parting with your holdings of stock borrow money on your stock?

Mr. WARNER. Borrow money from whom?

Mr. GRAY. From whomever might loan it to you on the security of your stock.

Mr. WARNER. Well, there was no reason for me obligating myself to borrow money from anybody on any of the securities that I had.

Mr. GRAY. The only reason would be, perhaps, the reason you have already indicated to us, that the company needed money and that you wanted to raise it in order to loan it to the company.

Mr. WARNER. Well, I said partly that was it.

Mr. GRAY. Oh, you sold that stock partly because you wanted to raise money for the company?

Mr. WARNER. Yes. My first statement was that I thought I ought to diversify some of our holdings.

Mr. GRAY. And you meant by that you thought you ought to put some of that money into other stocks, did you?

Mr. WARNER. Into something else.

Mr. GRAY. And did you do that?

Mr. WARNER. And in the debentures of the company.

Mr. GRAY. Well, did you put any of it in other stocks, of other companies?

Mr. WARNER. At that particular time I do not remember whether we did or not. I do not think so—and yet it seems like—perhaps Mr. Schneider knows.

MR. SCHNEIDER. It was mostly in our own debentures.

MR. GRAY. In March of 1930, what was the amount of stock you sold?

MR. SCHNEIDER. According to this record it was 3,400 shares.

MR. GRAY. May I say to you and ask you whether it is correct—and I will be glad to show you this if you want to see it—whether you did not sell through Schatzkin & Co. alone 16,700 shares.

MR. SCHNEIDER. Well, I will say that I thought I had a summary of every account with every broker. It may be I left out one account. But I thought I had the stock at the beginning and the stock at the end, and the purchases and the sales all jibe, or at least I thought so.

MR. GRAY. You do not know whether they jibe with what I have here, though?

MR. SCHNEIDER. I have photostatic copies here of all accounts that are on our books. And I thought I would be able to account for all of them. Certainly I did not leave out any account intentionally. And, for instance, as we have already seen, I have a total of 144,000 shares here at one place while you have 137,500.

MR. GRAY. The difference may be in a different month from where you put it. In April of 1930, how many shares did you sell?

MR. SCHNEIDER. None. In regard to any difference in figures, one of the accounts that you may have of stock in the case of Schatzkin & Co. might not have been ours.

MR. GRAY. I have asked you about accounts and names that you have given to me as trading accounts and that exactly agree with the names that I have here.

MR. SCHNEIDER. But not having seen your record I do not know, and yet I would suggest that you might have the account of Albert Warner No. 2 and it might be Albert Warner here.

MR. WARNER. I might say as to the matter of names under which we bought or sold this stock, that if an individual might have bought some for himself, or sold it, I wouldn't have any knowledge of it.

MR. GRAY. And there is nothing in that account to distinguish whether they did it or not?

MR. WARNER. No. But I am talking about all stocks probably, not just the Schatzkin & Co. brokerage house, of ours under these names.

MR. GRAY. We will get to the details of that in a few minutes.

MR. SCHNEIDER. You have the account Albert Warner No. 2, and that might have been his own personal account, and he might have bought a couple of thousand shares or sold a couple of thousand shares for himself, or for his wife, and I would have no record of it. I have a record of all stock bought and sold by the Warners during the year 1930 and audited by Price, Waterhouse & Co., and which was gone over by your people. I did not go to the brokers and they may have some extra amounts on their books. It might really mean several thousand shares of stock that might not be on our books. This absolutely jibes with my books. But even then I might be wrong.

MR. GRAY. What about the month of May, 1930?

MR. SCHNEIDER. Twenty-seven thousand five hundred shares sold.

MR. GRAY. And none bought.

MR. SCHNEIDER. No, sir.

Mr. GRAY. What is your statement as to June of 1930?

Mr. SCHNEIDER. Thirteen thousand seven hundred shares sold.

Mr. GRAY. And none bought?

Mr. SCHNEIDER. No, sir.

Mr. GRAY. What is your statement as to July of 1930?

Mr. SCHNEIDER. Nothing.

Mr. GRAY. With nothing on either side?

Mr. SCHNEIDER. No.

Mr. GRAY. Now, Mr. Warner, do you recall the date of your meeting—I mean of your board—during the summer of 1930?

Mr. WARNER. Well, we have monthly meetings.

Mr. GRAY. Do you recall at what date you considered the question of your dividend?

Mr. WARNER. Of paying a dividend?

Mr. GRAY. Yes.

Mr. WARNER. Well, every quarter that was considered.

Mr. GRAY. How was that answer? I did not hear you.

Mr. WARNER. I say every quarter that was considered.

Mr. GRAY. Did you have a meeting in August of 1930?

Mr. WARNER. Yes; I would say so.

Mr. GRAY. Was there any passing or reduction of the dividend?

Mr. WARNER. Do you mean in 1930?

Mr. GRAY. Yes.

Mr. WARNER. Why, the books will show that. I do not recall.

Mr. GRAY. Don't you know something about your company?

Mr. WARNER. Yes. But I can not remember just the exact dates when dividends were declared or discussed, because they were discussed in the regular routine of the business.

Mr. GRAY. Didn't you as a matter of fact in the early part of August of 1930 postpone a meeting that you had previously at that time called, for the purpose of discussing the question of a dividend?

Mr. WARNER. What month was that?

Mr. GRAY. August of 1930.

Mr. WARNER. If the record shows that, then that would be correct.

Mr. GRAY. Isn't it a fact that your statement that came out—well, first, let me ask you: When did your fiscal year begin?

Mr. WARNER. August 31.

Mr. SCHNEIDER. September 1.

Mr. WARNER. Yes; September 1.

Mr. GRAY. Isn't it a fact also that your statement that came out for the last half of your fiscal year, which ended September 1, 1930, showed that your earnings had dropped off considerably?

Mr. WARNER. That is right.

Mr. GRAY. And what dividend had you been paying prior to that time?

Mr. SCHNEIDER. It was \$4 a share.

Mr. GRAY. And when was it changed?

Mr. SCHNEIDER. I think the latter part of 1930.

Mr. GRAY. When in 1930?

Mr. SCHNEIDER. If you will refer to the record, or give me an opportunity?

Mr. GRAY. Have you the record here?

Mr. SCHNEIDER. We brought our personal records but not the company's records.



Mr. GRAY. Well, answer if you can. Has anybody got that record?

Mr. SCHNEIDER. No, sir.

Mr. GRAY. To what amount was it reduced?

Mr. WARNER. I think it was eliminated.

Mr. GRAY. Eliminated entirely. And you, of course, during the spring of 1930 were entirely familiar with the financial affairs of Warner Bros. Pictures (Inc.).

Mr. WARNER. Yes, sir.

Mr. GRAY. And you knew that that was very likely to happen, didn't you?

Mr. WARNER. Not at the beginning.

Mr. GRAY. When did you learn it?

Mr. WARNER. I did not learn it until the last meeting of the year.

Mr. GRAY. Do you mean to say that you being connected with Warner Bros. Pictures (Inc.) did not know that the earnings of the company had fallen off considerably until the last meeting of the year, is that correct?

Mr. WARNER. The last part of the year 1930 the earnings in the business fell off.

Mr. SCHNEIDER. Do you want me to answer that question, Mr. Gray.

Mr. GRAY. No; I do not. I am asking you, Mr. Warner, whether or not you did not know in the spring of 1930 when you were selling your stock, that the business of Warner Bros. Pictures (Inc.) was falling off?

Mr. WARNER. No.

Mr. GRAY. When did you first learn that the business of Warner Bros. Pictures (Inc.) was falling off?

Mr. WARNER. The latter part of the year.

Mr. GRAY. Do you ever read the newspapers?

Mr. WARNER. Yes.

Mr. GRAY. Do you recall or did you read an article published on August 6, 1930, indicating that Warner Bros. had postponed a meeting that had been called for the purpose of determining that dividend, and that it was causing unsettlement with respect to their stock, and that the earnings during the last half of the current fiscal year ending August 31, 1930, might not exceed \$5,000,000, and that it would be insufficient to cover the dividend on the 2,870,000 shares of common stock, and that it was apparent the public could no longer be attracted by the novelty of the talkies, and that future productions must possess greater appeal. Did you read that?

Mr. WARNER. I think we issued a statement.

Mr. SCHNEIDER. But not that statement?

Mr. GRAY. Pardon me, Mr. Schneider, but when we want information that Mr. Warner can not give and you can give it, I will let you do it, but please do not correct his knowledge. Mr. Warner, you must have known during the summer of 1930 at any rate as to the business conditions, such as are described in this article.

Mr. WARNER. I would not want to say I did or did not. I can not remember that.

Mr. GRAY. You just this minute said you gave out that statement.

Mr. WARNER. No; we gave out a statement with the annual statement of the company.

Mr. GRAY. That was at the end of August of 1930?

Mr. WARNER. Yes, sir.

Senator COUZENS. Have you a copy of that statement here?

Mr. WARNER. Yes, sir.

Mr. GRAY. Senator Couzens asks for a copy of that statement that you issued.

Mr. WARNER. Here it is.

Mr. GRAY. Have you the statement requested by Senator Couzens?

Mr. WARNER. Yes, sir.

Mr. GRAY. Will you let Senator Couzens see it, and then when he is through, hand it to the committee reporter to be marked as an exhibit in this case?

Mr. WARNER. Yes, sir.

(A printed copy of the annual report of Warner Bros. Pictures (Inc.) and subsidiary companies, dated August 30, 1930, was furnished by the witness and identified by being marked "Committee Exhibit No. 25, May 21, 1932," and will hereafter be printed in the appendix in connection with Exhibit 24, same date.)

Senator COUZENS. As I understood Mr. Warner, he testified that he did not know the condition of the business until the end of 1930.

Mr. GRAY. I so understood him, and that is why I called his attention to these newspaper articles.

Mr. WARNER. I knew the condition of the business every quarter, when the statement was issued.

Senator COUZENS. Where was the major part of the business done?

Mr. WARNER. Our business is spread throughout the world, and it is impossible for us to know just what our business has done until Price, Waterhouse & Co. actually audit the books of the company; the statements from all over are brought in and they condense them into one statement. That is the only time we can tell whether business is better or worse, because our business changes with the pictures that we put out.

Senator TOWNSEND. Are you the president of Warner Bros. Pictures (Inc.)?

Mr. WARNER. Yes, sir.

Senator TOWNSEND. As a matter of fact, didn't you have a general idea of the condition of business, being president of the company?

Mr. WARNER. Well, I had a general idea of the business, but not of all conditions that may come about.

Senator TOWNSEND. Didn't you have a report of conditions put on your desk every day?

Mr. WARNER. Yes; but not as to the future.

Mr. GRAY. We are not talking about the future.

Mr. WARNER. Reports of the condition of the business of the company as a whole are given to me.

Senator TOWNSEND. And, of course, you go over them, don't you?

Mr. WARNER. Yes. But as to the condition of business at a later date, whether the company was going to make more money or less money, would be impossible, because our business is such that it depends upon conditions throughout the country as to attendance at the theaters. As an example, right to-day our theaters in the city of Washington are making money, because the people are going to them. There seems to be employment here or I do not know what it is, while in other parts of the country they are not going to the

theaters as before. And this condition comes about from time to time. For instance, to-day I may find that 240 or 250 theaters would take in a certain amount of money, and then six months later or three months later that same number of theaters may take in 30 or 40 per cent less money.

Senator TOWNSEND. I was not trying to develop that. I was trying to develop the fact whether or not you knew each day the general trend of your business.

Mr. WARNER. Oh, the general trend of business I always know daily.

Senator TOWNSEND. Certainly. I thought so.

Mr. WARNER. Yes, sir.

The CHAIRMAN. Then why did you say you did not know it until the end of the year? We seem now to have gotten back to where we were 15 minutes ago.

Mr. WARNER. I was under the impression that you asked me whether I knew the result of business at the end of the year.

Mr. GRAY. No. I asked you and I now repeat whether you knew during the spring of 1930 that the business of Warner Bros. Pictures (Inc.), was falling off.

Mr. WARNER. That is correct.

Mr. GRAY. Well, that is all I want to know about that. And you sold your stock?

Mr. WARNER. In the spring of 1930?

Mr. GRAY. At the beginning of 1930.

Mr. WARNER. No, sir; not at the beginning of 1930.

Mr. GRAY. When did you first learn, not when you first learned officially of the standing of your company, but when did it first dawn on you in 1930 that your company's business was getting worse?

Mr. WARNER. The latter part of 1930.

Mr. GRAY. What do you mean by "the latter part"?

Mr. WARNER. The summer of 1930. At the beginning of 1930 was the best business our company had while in business.

Mr. GRAY. All right.

Mr. WARNER. Pardon me a moment and I will try to give you a clear picture: I think the biggest profits the company made were at the time we sold the stock you are talking about, and then the stock went up 20 points beyond what we sold it for.

Senator COUZENS. What was the trend of the business at the time this happened, up or down?

Mr. WARNER. The trend as far as our business was concerned was up.

Senator COUZENS. But you had no occasion to suspect that the trend would be down?

Mr. WARNER. Positively not.

Mr. GRAY. All right. Now, the fact is that in August after you had sold those quantities of stock that have been testified to here, you started to buy back again, didn't you?

Mr. WARNER. Yes, sir.

Mr. GRAY. And in August you bought how much?

Mr. SCHNEIDER. 25,800 shares.

Mr. GRAY. And did you sell any?

Mr. SCHNEIDER. 100 shares.

Mr. GRAY. Did you say 100 shares?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And in September you bought how many shares?

Mr. SCHNEIDER. 54,300 shares, and there were 20,000 shares that we got under rights, making 74,300 shares in all.

Mr. GRAY. And what did you sell in September?

Mr. SCHNEIDER. 42,300 shares.

Mr. GRAY. Bettering your position as long as your long side was concerned.

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. And in October how much did you buy?

Mr. SCHNEIDER. 112,900 shares.

Mr. GRAY. Did you sell any?

Mr. SCHNEIDER. No, sir.

Mr. GRAY. My record shows, and I will say that I am going over these records or I would not make the statement, that through Schatzkin & Co. alone they bought 129,300 shares in that month.

Mr. WARNER. That is possibly from what I said before.

Mr. SCHNEIDER. Your figures may be right.

Mr. GRAY. In December what did you buy?

Mr. SCHNEIDER. Thirty-three thousand six hundred shares.

Mr. GRAY. Did you sell any?

Mr. SCHNEIDER. No.

Senator COUZENS. When you bought this stock did you know from whom you bought it, or was it purchased on the open market?

Mr. SCHNEIDER. Only that 20,000 shares were rights.

Senator COUZENS. Did you know who was selling this stock when you bought it?

Mr. SCHNEIDER. No, sir; we bought it through various brokers.

Senator COUZENS. How many stockholders did you have at that time?

Mr. WARNER. I would say around 35,000, or between 35,000 and 40,000.

Senator COUZENS. Who were the largest stockholders, so far as you knew?

Mr. WARNER. We were the largest stockholders at all times.

Senator COUZENS. That is, your family were?

Mr. WARNER. Yes, sir; and still are the largest stockholders and bondholders, too, for that matter.

Mr. SCHNEIDER. The largest individual stockholders at the present moment.

Mr. GRAY. I am directing your attention to the totals, if you can give them to me, showing the number of shares that you sold during the year 1930. Can you give me that figure?

Mr. SCHNEIDER. Two hundred thirty-one thousand and fifty-five shares for \$12,000,000.

Mr. GRAY (interposing). Never mind the amount of money.

Mr. SCHNEIDER. Well, 231,055 shares.

Mr. GRAY. That you sold?

Mr. SCHNEIDER. Yes, sir.

Mr. GRAY. I say to the committee that according to the records of Schatzkin & Co. alone they sold 305,750 shares, or approximately the amount that Mr. Warner says he owned the 1st of January.

Mr. WARNER. I would say that we will agree whatever Price, Waterhouse & Co. audit and find, that that is what we bought and sold and it is correct.

Mr. GRAY. This is not Price, Waterhouse & Co.'s audit, but from the books of Schatzkin & Co.

Mr. WARNER. Pardon me. I understand that, but we have to look at our own books.

Mr. SCHNEIDER. This is a record I took off of our accounts, and it may be that one or two of these accounts did not belong to us.

Mr. GRAY. I will analyze it and you can tell me. How many shares did you say you bought in 1930?

Mr. SCHNEIDER. 340,400.

Mr. GRAY. And in fairness to the other side I will say that our records show in Schatzkin's that they bought 326,500. Now then, how many shares were you long at the end of 1930 more than you were at the beginning?

Mr. SCHNEIDER. At the beginning of 1930, just the beginning, January 1, 1930, 303,484. At the end, 412,829; 109,345 shares more.

Mr. GRAY. 109,345 shares more. In the Schatzkin account alone it only shows that they increased their position by 21,150. Now then, let me come to the dollars and cents. In all of these accounts what did you get during the year 1930 for the stock which you sold?

Mr. SCHNEIDER. Excuse me. You see there is a differential there of purchase of 20,000 shares, of rights, which would not go through any broker. We got that from the company, you see.

Mr. GRAY. So it would reduce your figure of 109,345 shares to 89,345 shares.

Mr. SCHNEIDER. Yes.

Mr. GRAY. As being the difference that was attained by your stock-market transactions?

Mr. SCHNEIDER. Yes.

Mr. GRAY. While Schatzkin's account alone shows 21,150 shares. Now the amount that you received from the sale of Warner Bros. stock through any of these accounts during the year 1930 is what?

Mr. SCHNEIDER. 231,055 shares. We got \$12,850,540.50.

Mr. GRAY. \$12,850,540.50?

Mr. SCHNEIDER. Yes.

Mr. GRAY. Now that is not right. I am talking about the gross amount of the sale.

Mr. SCHNEIDER. That is net.

Mr. GRAY. Yes. In Schatzkin's account alone these accounts will show that they received from the proceeds of the sale \$16,520,986. We will take up the individual accounts in a few minutes and see where the difference arises.

Mr. SCHNEIDER. We bought 340,400 shares for \$6,932,158.42.

Mr. GRAY. The Schatzkin account alone shows a purchase of the amount which I have indicated, 326,500 shares for \$7,544,481.50.

Senator COUZENS. What is counsel for the committee trying to prove by all these details?

Mr. GRAY. I thought I had stated it thoroughly, Senator. Would you like me to state it again?

Senator COUZENS. No. I do not just get what advantage it is to this committee to know all of the differences of a few shares of stock

and a few dollars and cents, when we are endeavoring to get at the effect of these things upon the stock market.

Mr. GRAY. Yes, sir.

Senator COUZENS. If the counsel has some definite purpose in mind along that line, very well.

Mr. GRAY. Some members of this committee have instructed me to get them an illustration of where officers and directors of corporations were dealing in their own stock, to their own advantage, and to the detriment of the public.

Senator COUZENS. I think the counsel has developed that. But what difference does it make to the committee if there is a difference of a few shares more or less or a few dollars and cents more or less, since you have demonstrated the fact?

Mr. GRAY. I think it does not make any difference, as long as you agree with me, but some of the Senators have asked me—Senator Brookhart, for instance, has asked me to bring out these figures. What am I to do?

Senator COUZENS. I am sorry if I have interfered with another Senator's program.

Mr. GRAY. What is the net result?

Mr. SCHNEIDER. The net result for the year was that at the end of 1930 we had 109,345 shares more than we had at the beginning of 1930, and we realized cash, \$5,918,382.08, through these transactions.

Mr. GRAY. And your stock at the end of 1930 was worth what? What was its market?

Mr. SCHNEIDER. I think around \$18, if I am not mistaken, or \$15. Around that price.

Mr. GRAY. Well, have you got a calculation showing what that stock was worth?

Mr. SCHNEIDER. Yes; I have.

Mr. GRAY. All right, give me the figures at its market?

Mr. SCHNEIDER. I have a sheet here showing what the stock sold for. December 31 it sold at 13½. You have to multiply 412,000 by 13½, which is \$5,200,000.

Mr. GRAY. Which is what?

Mr. SCHNEIDER. 412,829 at 13½, which would be, I think, about \$5,000,000.

Mr. GRAY. In addition to the cash?

Mr. SCHNEIDER. Yes; that is right.

Mr. GRAY. So your total profit from these transactions, buying and selling, was what?

Mr. SCHNEIDER. As I said, \$5,918,000 more in cash we had, and we had about 109,000 more in stock.

Mr. GRAY. At 13½?

Mr. SCHNEIDER. Yes.

Mr. GRAY. Or about, we will say, \$1,300,000. roughly; is that right?

Mr. SCHNEIDER. About.

Mr. GRAY. Is that correct?

Mr. GRAY. That is the figure.

Mr. GRAY. So you bring your figures up somewhat about \$7,000,000?

Mr. SCHNEIDER. Yes.

MR. GRAY. That is all I wish to take up with regard to that account. Shall I continue with others, or what do you wish me to do? I can go on with this and show what as in the Rosenberg account, and show what was in the other accounts, Senator Couzens. Shall I do that, Mr. Chairman?

THE CHAIRMAN. I want to consult the committee on that matter. If I understand Senator Couzens, he is in accord with what you are doing, although he thinks it is not necessary to go into all the details now.

MR. GRAY. All right.

THE CHAIRMAN. If you think the details are necessary to make the picture—

MR. GRAY. Of course the details would be of no moment, Senator Norbeck, if it happened to be a small transaction. The size of the transaction is what makes the details of it important. But I think the circumstances have been developed. I do not think it is necessary to go any further.

Senator GLASS. Let me ask counsel this question. Are there any other moving-picture concerns engaged in this same sort of business?

MR. GRAY. Yes; and we are working on some of them now, but we were unable to complete any more of them up to date.

THE CHAIRMAN. I want to remind the committee that it was the wish of the attorney to have more time before we had the hearing in order to bring more of it in at one time.

Senator GLASS. Yes. I do not see why one moving-picture concern should be picked out of this business and brought in, and not the others.

Senator TOWNSEND. That may have been brought about by asking the counsel for the committee to bring one picture.

MR. GRAY. We did not pick out one particular concern.

Senator TOWNSEND. It was the committee itself.

MR. GRAY. But when the committee asked me to be ready to get something on Thursday we had progressed a little bit further with this than we had with some of the others, and it was one of the things that we could be ready to present to the committee.

Senator GLASS. I begin to feel that I am rather obtuse because I haven't gotten it in my head yet what this has to do with the stock exchange transactions. Are Warner Bros. members of the New York Stock Exchange?

MR. GRAY. No, sir. It shows what can be done on the exchange and what has been done with respect to the manipulation of stocks on the market. All right, that is all I want to ask.

MR. SCHNEIDER. Can I say a word, please?

MR. GRAY. If the chairman will permit you.

THE CHAIRMAN. Mr. Gray?

MR. GRAY. I say I am through.

MR. SCHNEIDER. I just want to say a word. I want to bring out the fact here that during the month that we did sell the bulk of that stock, 144,000 shares, according to our records our business was at its height. We made \$10,000,000 in the half a year up to the end of February, 1930, and it is during that period that we sold the great bulk of that stock.

Senator GLASS. Why did you sell the great bulk of the stock when you were doing such a fine business?

Mr. SCHNEIDER. For the two reasons that Mr. Warner stated. One, to turn some of the securities into cash in order to buy other securities, and our records show that we eventually put \$7,000,000 into our debentures at practically par, and still have them. And they are now selling at 16. And the other reason——

The CHAIRMAN. The debentures are drawing interest?

Mr. SCHNEIDER. Yes.

The CHAIRMAN. The stock is paying no dividends?

Mr. SCHNEIDER. No.

The CHAIRMAN. In other words, Mr. Warner traded stock that does not earn anything for debentures that do?

Mr. SCHNEIDER. At the time we sold them it paid \$4 a share. At the time we sold them.

The CHAIRMAN. What do you mean, paid \$4?

Mr. WARNER. The common stock.

Mr. SCHNEIDER. The common stock.

Mr. WARNER. We had no knowledge at that time that we were not going to continue paying this dividend.

The CHAIRMAN. I think you made a very good guess.

Mr. WARNER. I am sorry we did not make them in some others.

Mr. SCHNEIDER. I want to bring out a certain point, Senator. When we sold that stock, the stock was not selling at its high.

Senator COUZENS. What was it selling at?

Mr. SCHNEIDER. I think we got a high price of 60—64, and it went up to 80 after we sold. Now Mr. Warner told you the two reasons we sold the stock. And during the latter part of the year when it is trying to be brought out that we knew that the company was doing worse we bought 340,000 shares.

Mr. WARNER. And the debentures.

Mr. SCHNEIDER. And \$7,000,000 worth of debentures. Now if we knew at that time, if we were such good guessers that the business was going to get the way it finally did get we would not be putting \$7,000,000 into debentures, and we would not be buying 340,000 shares at \$6,932,000, which we still own.

Senator FLETCHER. You bought the stock at about 13 or 15?

Mr. SCHNEIDER. No; we bought 340,000 shares for \$6,932,000, which is around 25. An average. It went all the way down——

Senator FLETCHER. You sold at 65?

Mr. SCHNEIDER. That is right.

The CHAIRMAN. But the fact is that you profited by the whole transaction?

Mr. SCHNEIDER. Yes.

The CHAIRMAN. That is not denied.

Mr. SCHNEIDER. No.

The CHAIRMAN. Then let us not argue the details before this committee.

Mr. WARNER. No.

Senator TOWNSEND. As a matter of fact, by July or August you had sold all the stock you held of Warner Bros., hadn't you, Mr. Warner? Isn't that a fact?

Mr. SCHNEIDER. No.

Senator TOWNSEND. Well, a very large per cent of it?

Mr. SCHNEIDER. No. The least stock, according to our records, that we ever held was 120,000 shares.



Senator TOWNSEND. One hundred and twenty thousand shares?

Mr. SCHNEIDER. Yes. That was the least stock.

Senator TOWNSEND. And you were the managers of the company?

Mr. SCHNEIDER. Yes.

Senator TOWNSEND. And you strengthened your position as stockholders later in the year?

Mr. SCHNEIDER. That is right.

Senator TOWNSEND. When the stock was cheaper?

Mr. SCHNEIDER. Yes.

Senator TOWNSEND. You sold it when it was high and bought it when it was cheap?

Mr. SCHNEIDER. Yes.

Senator TOWNSEND. That is the story.

Mr. WARNER. May I say one thing, please? From the time of the inception of our business we always placed ourselves in a position to have in cash, or as near as possible, the full amount of money that the company that had our name owed to banks. If you go into the records of our personal affairs, that was our greatest ambition at all times, that whatever our company owed to banks that it borrowed, that we should have that amount in cash. And here is the record of that.

Senator FLETCHER. What time did you make this statement?

Senator TOWNSEND. What has that to do with this?

Mr. GRAY. I don't know, but I don't want to interfere.

Senator FLETCHER. Was it August or September or July? What time was it? The latter part may mean anything. What I want to get at is when did you make that statement?

Mr. WARNER. To pass the dividends, you mean?

Senator FLETCHER. Yes.

Senator WALCOTT. August, they have just stated.

Senator FLETCHER. Well, they don't seem to know just when it was, except that it was the latter part. Is August the latter part or not?

Senator GLASS. It has been testified that the fiscal year ended the 1st of September.

Senator FLETCHER. Yes; I know about that. What time did you make that statement?

Mr. SCHNEIDER. August, 1930.

Senator FLETCHER. August, 1930?

Mr. WARNER. August 3, 1930.

Senator FLETCHER. What was the stock selling at then?

Mr. SCHNEIDER. In August?

Senator FLETCHER. Yes.

Mr. WARNER. Have you got that sheet there?

Mr. SCHNEIDER. I will tell you.

Mr. GRAY. It was selling high at 36 in August and a low of 25, Senator. That is the entire month.

Senator FLETCHER. I want him to say. If he does not know let him say he does not know.

Mr. SCHNEIDER. High of 35, to a low of 25. From 36 to 25.

Senator FLETCHER. That is in August?

Mr. SCHNEIDER. Yes.

Senator FLETCHER. Now you bought in September?

Mr. SCHNEIDER. We bought in August and September and October and November and December.

Senator FLETCHER. Yes. And what did you pay for it?

Mr. SCHNEIDER. From 36—I think we paid as high as 40—all the way down to 15.

Senator FLETCHER. Fifteen. When was your last purchase at 15?

Mr. SCHNEIDER. The latter part of December.

Senator FLETCHER. December?

The CHAIRMAN. 1930?

Mr. SCHNEIDER. 1930.

Senator FLETCHER. How much was that?

Mr. SCHNEIDER. It hit a low of 13½, and we bought right down to the end of December.

Senator FLETCHER. How much?

Mr. SCHNEIDER. We bought 340,400 shares for a total of \$6,932,000, which would be an average price of about \$25, I would say.

Senator FLETCHER. Well, following that statement the stock went down?

Mr. GRAY. And they bought it back.

Senator FLETCHER. And they bought it back at 15.

Mr. GRAY. Just one other phase I have not touched. You had two or three corporations that traded in your stock, did you not?

Mr. WARNER. Yes.

Mr. GRAY. The Colfax Trading Corporation?

Mr. WARNER. Yes.

Mr. GRAY. That was your family affair?

Mr. WARNER. Yes.

Mr. GRAY. Renraw (Inc.), which is "Warner" spelled backward?

Mr. WARNER. Yes.

Mr. GRAY. That traded in your stock?

Mr. WARNER. Yes.

Mr. GRAY. And the Raywarn Trading Corporation?

Mr. WARNER. Yes.

Mr. GRAY. That traded in your stock?

Mr. WARNER. Yes.

Mr. GRAY. And the Brixton Trading Corporation, is that right?

Mr. WARNER. Yes.

Mr. GRAY. And those corporations were corporations that were formed by you in your family and among your family group for the purpose of trading backward and forward in your stock?

Mr. WARNER. The Brixton was not.

Mr. GRAY. The Brixton was not. Were the others?

Mr. WARNER. Neither was Raywarn or Renraw.

Mr. GRAY. They traded in everything?

Mr. WARNER. Both of them—

Mr. SCHNEIDER. I can tell you the facts. None of them were formed just for the purpose of trading in our stock. They were corporations formed by the family.

Mr. GRAY. For trading in stocks?

Mr. SCHNEIDER. For trading. And the Renraw was formed for the purpose of trading for the members of the family.

Mr. GRAY. That is all.

Senator COUZENS. May I ask Mr. Warner whether he thinks it is ethical for an officer of a large corporation like his, with such a large amount of outstanding stock, to trade back and forward in the stock of his own corporation?

Mr. WARNER. I think personally that it is ethical and helpful.

Senator COUZENS. Helpful to what?

Mr. WARNER. I did not trade back and forth. It is ethical and helpful to buy and sell at different times. I don't think it is ethical to trade back and forth, but buy and sell.

Senator COUZENS. Does not the record show that you bought and sold nearly every month?

Mr. WARNER. No. We sold during the months of February, March, and the first part of the year, and bought back the last part of the year.

The CHAIRMAN. You sold at 64 and bought back at 15. That is your testimony.

Senator COUZENS. Why certainly. Mr. Warner seems to think that is all right, and I just want to get before this committee what are the ideals and the standards of some of these large corporation office holders with respect to these matters. Mr. Warner says under oath that he thinks that is a perfectly proper standard to buy and sell the stocks of his own corporation and affect the market, as was done in this case undoubtedly. And he also apparently thinks that that would be perfectly all right for any other officer or director of any other corporation in which he was a silent partner.

Mr. WARNER. Not for the purpose of raising or lowering the stock—it is not ethical.

Senator COUZENS. Well, it is a certainty that the officers of a corporation know more about the internal operations of the company and the value of the company than any outsider or individual stockholder knows, and the officer certainly has advantages in knowing when to buy and when to sell, and Mr. Warner testifies under oath that he believes that to buy and sell stock of his own corporation with inside information that other stockholders do not have is perfectly justified.

The CHAIRMAN. And to conceal from the public that the trading is done by him.

Senator COUZENS. Why certainly. Why beat about the bush about it?

Mr. WARNER. Wait a minute. I don't agree with that fact, and that is not the statement I make. I say if you take a corporation—take ours; at the time we acquired Vitaphone Corporation we sold our stock to acquire money with which to finance it for the company, without costing the company a dollar, and the profits afterwards derived went to the company, and we didn't get anything out of it.

Senator TOWNSEND. Yes; but as a matter of fact, Mr. Warner, Warner Bros. made a profit of somewhere between \$6,000,000 and \$9,000,000 buying and selling their own stock in a year; isn't that a fact?

Mr. SCHNEIDER. That is a fact by the statements.

Senator TOWNSEND. All right.

The CHAIRMAN. How much did the public lose during that time?

Senator COUZENS. The same amount, of course.

Senator TOWNSEND. The same amount, of course. They had to.

Mr. GRAY. I will say to the committee that I will hand to the reporter later some original clippings that I will take from various papers showing that during the period of time that Mr. Warner was selling, right clear up until August, articles were published boosting the value of the stock of Warner Bros., saying how far they were going to move ahead, and that on August 6, the articles turned, and the articles were all deprecating Warner Bros. and saying that they were not going to earn as much money as they did during the first period of time in which they were selling. I will have them placed in the record. (See page 655.)

Senator WALCOTT. Have you computed from your records how much the net earnings from the stock transactions alone of this inside group amounted to this year?

Mr. GRAY. Yes.

Senator GLASS. I will suggest to counsel that he get the record of some other moving picture companies and see whether this is an exceptional case or a common practice.

Mr. GRAY. We are working on that now.

Senator GLASS. You can not put them all in at once.

Mr. GRAY. No.

Senator WALCOTT. It takes time.

The CHAIRMAN. Yes.

Senator GLASS. I suggested to him that he do that hereafter.

The CHAIRMAN. Yes.

Senator GLASS. To ascertain whether or not this was a common practice or an exceptional practice.

Senator TOWNSEND. Mr. Warner, do you think it is a common practice among the corporations in New York that the officers of the companies deal in their own stock?

Senator WALCOTT. To sell high and buy low?

Senator TOWNSEND. Well, is it a general practice, in your judgment? That is the question I am asking.

Mr. WARNER. I would say that it possibly is.

Senator WALCOTT. You would think that it was?

Mr. WARNER. I would say that the stock is being traded up and down. When people buy stock and pay a certain price they naturally buy it for the purpose of trying to make a profit.

Senator TOWNSEND. That is right; but I want to know whether or not they buy it from their knowledge of the company to the disadvantage—

Mr. WARNER (interposing). Senator, may I say this to you, please, that when a man at the head of a company has a part in the buying of stock at a certain price he has no knowledge of conditions of the world that are going to get so that the business is going to get worse.

Senator TOWNSEND. But he does have some knowledge of his own company, doesn't he, if he is an officer in the company?

Mr. WARNER. But his knowledge is affected by the conditions in the country as to whether people are going to buy, whether it is a picture or whether it is a commodity.

Mr. GRAY. That is the future. He knows the present condition, doesn't he?

MR. WARNER. He knows the condition of his company at that time.

MR. GRAY. Certainly.

MR. WARNER. And at that time he feels that he is justified in making an investment.

THE CHAIRMAN. How much does the public know, that is doing the buying, from the officer of the company who is selling the stock?

MR. WARNER. I would say that they know as much as we do. Sometimes they know more. In the case of when we sold our stock at \$60 and it went up to \$80, the public must have known more than we did.

MR. GRAY. Well now, Mr. Warner, you mentioned that, and therefore I want to ask you this question, whether you don't know that right after you sold at the top price that a pool was formed in Warner Bros. stock for the purpose of manipulating it and taking it up higher? Another pool of outsiders?

MR. WARNER. Positively not.

MR. GRAY. You do not know it?

MR. WARNER. No, sir.

MR. GRAY. Well, I will establish it later. Senator Walcott has asked me to put certain figures on the record. The examination and analysis—and an accurate analysis of the trading in these various accounts at Schatzkin & Co., the brokers, shows that there were sold 305,350 shares of Warner Bros. stock by this group at a price of \$16,520,986. That there were bought 326,500 shares at a price of \$7,544,481.50. So that at the end of 1930—these transactions all being in that year—they had a profit of \$8,976,504.50 in cash. And the 21,150 shares difference that they had at the low price of \$13 represents a figure of \$274,950, increasing their profit to the total amount for the operations during that year of \$9,251,454.50.

Let me state in fairness, however, that this is the account in Schatzkin & Co. The other brokerage houses we have not been able to develop, and whether or not they will show a slight difference in the profit one way or the other I can not tell you. But I remind you of the testimony of the witness to the effect that he admits that he earned somewhere near seven and a half million dollars in all of his brokerages houses, according to his calculation.

(The statement of analysis of Warner Bros. profits in Warner stock trading, year 1930, presented by Mr. Gray, is as follows:)

*Analysis of Warner Bros. profit in Warner stock trading, year 1930*

Account <sup>1</sup>	Shares bought	Cost of purchases	Shares sold	Proceeds of sales
Moe Rosenberg.....	39,300	\$1,446,665.00	91,300	\$4,992,945.50
No. 72 account (H. M. Warner).....			5,500	364,255.00
Lewis Warner.....	121,400	2,201,150.00	8,500	555,372.50
Harry Charnas.....	95,400	1,946,947.50	170,750	9,319,920.00
Harry M. Warner.....			900	36,604.00
Albert Warner.....	24,500	934,691.50	26,100	1,093,533.50
Albert Warner Special.....	44,300	912,125.00		
Albert Warner No. 2.....	1,600	102,902.50	2,300	158,355.50
Total.....	326,500	7,544,481.50	305,350	16,520,986.00

<sup>1</sup> Broker, Schatzkin & Co.

Total shares bought-----	326,500
Total shares sold-----	305,350
	<hr/>
	21,150
	<hr/>
Proceeds of sales-----	\$16,520,986.00
Cost of purchases-----	7,544,481.50
	<hr/>
	8,976,504.50
Value of 21,150 long at Dec. 31, 1930, price 13-----	274,950.00
	<hr/>
Net profit-----	9,251,454.50
Average price on 326,500 bought-----	23.10
Average price on 305,350 sold-----	54.11

Mr. WARNER. May I say one more thing, please, and then I am through. If an officer of a corporation knows—the question that you asked, Senator—would he buy for himself and his family and relatives \$7,000,000 worth of debentures and 340,000 or 350,000 shares of stock at a price——

Senator TOWNSEND. Let me ask you this question.

Senator COUZENS. Who is he asking the question? Of whom is he asking the question?

The CHAIRMAN. Yes; of whom is he asking the question?

Mr. WARNER. I am trying to explain.

Senator COUZENS. No; you are not trying to explain now; you are asking a question of somebody. I would like to know to whom it is directed.

Mr. WARNER. Can I apologize, then? I didn't mean so; I mean talking generally.

Senator TOWNSEND. You sold your common stock, didn't you?

Mr. WARNER. Yes.

Senator TOWNSEND. To buy the preferred?

Mr. WARNER. Yes. I am just trying to get your view.

Senator COUZENS. To buy the debentures. Not the preferred.

Mr. GRAY. To buy the debentures, to get a preferred position.

The CHAIRMAN. And the position that the debentures pay interest and the stock does not pay dividends. He is just changing his position to better himself from the knowledge he has.

Mr. WARNER. But, Senator——

The CHAIRMAN. Go ahead and make your statement if you care to make one.

Mr. WARNER. Why not take the picture as of the time we did it and as of to-day. Now, we surely did not have any knowledge that the debentures were going to sell at \$16 or \$15 and the stock at a dollar when we bought them at 93.

Mr. GRAY. In other words you would have put your money in something else if you had known?

Mr. WARNER. We must believe in it or we would not deal.

The CHAIRMAN. You people must have thought that when you clipped the lamb you could take along the skin, too, and grow the wool, but the lambs must have a little time to grow skin again before they can grow wool.

Mr. WARNER. Well, I would not say that.

Senator COUZENS. Is the interest being paid on the debentures?

Mr. WARNER. Yes.

Senator COUZENS. So he is still getting his interest on the debentures that he traded for common stock.

The CHAIRMAN. But the Street seems to be disappointed with the fact that the country does not come back with more money quickly. They guessed wrong on that part of it, we will admit that. But the country seems to be broke.

Senator GLASS. I can very readily see the point of ethics raised by Senator Couzens, but I have not yet been able to see what this has to do with stock-exchange transactions.

Senator COUZENS. Well, I might say, Senator Glass, that I see it from the standpoint that they create a market by buying and selling of their own stocks, and of course that affects the market, and they do it through the stock exchange. That is the only point I see in it, Senator.

The CHAIRMAN. And one of the questions is: Should they be permitted in the market?

Senator COUZENS. May I put a hypothetical case to Mr. Warner? Assuming that he had 100,000 shares in Bethlehem Steel. He was an outside holder. He had no knowledge of the internal affairs of the company. And Mr. Schwab, who is chairman of the board, was to engage actively in the stock market and run the stock way up, knowing that the conditions were not good, and that he was going to unload, and then after he knew that the orders were falling off and the trend of production was going down, and the conditions over the country were not good, and you bought at the rising prices, and then afterwards Mr. Schwab got out with his own stock, would you consider that good ethics?

Mr. WARNER. I would.

Mr. SCHNEIDER. We have stocks in other companies that are selling for less——

Senator COUZENS. I am not asking that question. I am asking the question of what he thinks of the officers of the corporations dealing in their own stock.

Mr. WARNER. For the purpose of raising it or lowering it, I would not agree.

Senator COUZENS. Never mind what the purpose is. You can not always tell motives but you have sense enough to know what the effect is without analyzing your mind too clearly to find out what the motive is. Is that all, Mr. Gray?

Mr. GRAY. Yes, sir.

Senator COUZENS. Are we going to have an executive session, Mr. Chairman?

The CHAIRMAN. I have called a meeting of the steering committee after the adjournment of this hearing in order to formulate the program.

Mr. WARNER. Do I have to stay?

Mr. GRAY. No; you may go. Consider yourself under subpoena, but it is unlikely that we will bring you back unless there are some developments that the committee wants to know about.

The CHAIRMAN. The committee will adjourn and we will have an executive meeting of the steering committee. If every one else will leave the room.

(Thereupon, at 11.45 a. m., Saturday, May 21, 1932, the hearing was adjourned subject to the call of the chairman, and the committee went into executive session.)





# STOCK EXCHANGE PRACTICES

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FRIDAY, JUNE 3, 1932

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to call, in room 301, Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Goldsborough, Townsend, Walcott, Blaine, Carey, Couzens, Fletcher, Glass, Bulkley, and Gore.

Present also: William A. Gray, Esq., counsel to the committee.

The CHAIRMAN. The committee will come to order. You may proceed, Mr. Gray.

Mr. GRAY. Mr. Chairman, when Mr. Harry M. Warner was upon the stand I stated to the committee that I would put upon the record evidence of certain newspaper publicity that took place during the year 1930 while he was operating in the stock of Warner Bros. Pictures (Inc.). I have here photostatic copies of a number of publications, showing the date and name of publication, and with your permission I will hand them to the committee reporter for the purpose of making them a part of the record.

The CHAIRMAN. If there is no objection, it will be so ordered.

[The Wall Street Journal, Tuesday morning, January 21, 1930]

Warner Bros. was in active demand, pushing into new high ground on the movement in response to the favorable character of the company's earnings.

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[The Wall Street Journal, Thursday morning, January 30, 1930]

## WARNER PICTURES PREFERRED

Attention is being called to Warner Bros. Pictures preferred stock, which has been rather overlooked in the recent speculative buying of the amusement group. The issue gives the holder a call on Warner common until the end of August. The stock carries cumulative dividends, now paying \$2.20 a share, but after August 31 the rate will be increased to \$3.85 a share. It is convertible into common until August 31 at the rate of one share of common for one and fifteen hundredths shares of preferred.

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[The Wall Street Journal, Monday morning, February 17, 1930]

## WARNER BROS. PICTURES (INC.)

LOS ANGELES.—Two new theaters are to be built by Warner Bros; each to cost approximately \$500,000. The theaters will be located in Huntington Park and San Pedro and will seat, respectively, 1,800 and 2,000 people. Both theaters will be equipped with the new magnoscope screen. Construction is expected to begin at once.

[The Wall Street Journal, Wednesday morning, February 19, 1930]

WARNER BROS. PICTURES (INC.)

Warner Bros. Pictures (Inc.) and subsidiary companies report for quarter ending November 30, 1929, net profit including equity in undistributed earnings of affiliated company for nine weeks ended November 2, 1929 (since consolidated), of \$5,629,109 after amortization, depreciation, interest, Federal taxes, and proportion of net earnings applicable to minority stockholders. This is equivalent after preferred dividends, to \$2.07 a share on 2,645,864 shares of no-par common stock outstanding at end of quarter. In the corresponding quarter of 1928, net profit was \$2,917,724 which computed on the present share basis is equal to \$1.04 a share. The profits for the quarter ended December 1, 1928, however, included only the earnings of the companies then subsidiary to Warner Bros. Pictures (Inc.), while the profits for the quarter ended November 30, 1929 include profits of all the companies now subsidiary to Warner Bros. Pictures (Inc.)

[The Wall Street Journal, Monday morning, March 3, 1930]

WARNER BROS. PICTURES

Although there has been a tendency to credit the firmness in Warner Bros. to a group operation, commission houses with prominent uptown offices, report that the stock is unusually popular in that section of the city. Therefore the indications are that outside buying has been much larger than most market interests have realized.

[The Wall Street Journal, Monday morning, March 10, 1930]

WARNER BROS. CONVERTIBLES

In connection with the popularity of the amusement shares, attention has been called to Warner Bros. Pictures 6 per cent convertible debentures of 1939. The bonds have a convertible feature which makes it possible to obtain one share of common stock for each \$75 principal amount of bonds prior to September 1, 1932, and on a rising scale until 1939.

Another feature is that each \$1,000 bond is entitled to receive one share of common stock annually in place of the 6 per cent interest. This, coupled with the long call on the common, has made the convertibles quite attractive to some traders.

[The Wall Street Journal, Tuesday morning, March 11, 1930]

Large-scale buying of General Motors, du Pont, and Warner Bros. was attributed to Raskob and du Pont interests.

[The Wall Street Journal, Thursday morning, March 13, 1930]

WARNER BROS.

Traders who have been active in Warner Bros. Pictures in the past are beginning to talk of an extra dividend late next month. They argue that such action would be warranted, with earnings as high as they have been in recent months. The reaction in the stock recently eliminated a considerable part of the outside long following which had come in when upturns were in progress.

[The Wall Street Journal, Tuesday morning, March 25, 1930]

Amusement shares were another outstanding group, moving ahead under the leadership of Warner Bros., which attained record levels for the present shares.

Pacific Lighting was a strong spot in the utility division, while a number of industrial specialties staged aggressive uprushes. Among the features in this class were Vanadium, which gave evidence of a technical corner; Worthington Pump, Foster Wheeler, and Hershey Chocolate.

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[The Wall Street Journal, Saturday morning, March 29, 1930]

#### WARNER BROS.

Although there have been reports that Warner Bros. earnings are not likely to come up to earlier estimates, important houses which have had correct information in the past continue to insist the company will show from \$4 to \$4.25 a share for the six months ended February 28, last, not including profits from foreign subsidiaries. Such results would be equal to more than the full year's dividend on the stock, and probably would lead to rumors of an extra distribution before the end of April. An extra at that time would not surprise those close to the organization.

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[The Wall Street Journal, Saturday morning, March 29, 1930]

Warner Bros. further gain into record territory for the present shares followed the digestion of recent large offerings based on published estimates that the earnings statement for the six months to February 28, last, would show a balance of around \$3.65 a share. As a matter of fact, Warner Bros. earnings have been running at better than \$1 a share monthly, and the report for the February quarter is expected to show a balance of around \$2.50 a share.

In the three months to November 30, last, which was the first quarter of the current fiscal year, the company reported \$2.07 a share, so that the half-year showing is expected to be better than \$4.50 a share. Wilmington interests, who are currently dominating the market in Warner Bros., express confidence that the company will report in excess of \$9 a share for the fiscal year ending August 31, next.

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[The Wall Street Journal, Tuesday morning, April 8, 1930]

#### WARNER STARTS QUARTER STRONG—BOOKINGS INDICATE RECORD NET OF \$6,000,000 FOR THREE MONTHS TO MAY 31

##### OPERATING 350 THEATERS

Warner Bros. Pictures (Inc.) has completed one month of the third quarter of its fiscal year and from advance bookings it is probable that net will make a new high record for any three months' period in the history of the company. Profits in the current quarter ending May 30 will probably approximate \$6,000,000, equal after estimating preferred dividends, to about \$2.17 a share on 2,725,000 common shares.

In the first quarter of the fiscal year which ended November 30, Warner reported a net profit of \$5,629,109 equal after charges to \$2.07 a share on 2,645,864 shares of common stock then outstanding.

The report for the second quarter which ended February 28 has not yet been made public but it is likely to show a net profit of approximately \$4,500,000, a new record for any second quarter, equal to about \$1.65 a share on the common stock, after preferred-dividend requirements. The decline from the first-quarter earnings is partly seasonal but is mainly due to the fact that no outstanding successes were released during the period, most of the year's leading films being released in the first and third quarters.

Thus in the first six months of the fiscal year Warner will report a total net profit of around \$10,100,000, which is equal, after preferred dividend, to around \$3.67 a share on the 2,725,000 shares of common now outstanding. A net of \$6,000,000 in the third quarter will bring the total for nine months to above \$16,000,000, or \$5.40 a share. Profits in the final quarter are normally the smallest, since it includes the three summer months, and probably will not exceed \$4,500,000. This would give Warner a total net profit for the 1930

fiscal year approaching \$20,000,000, against a total net of \$17,271,806 earned by the company and all of its subsidiaries in fiscal year ended August 31, 1929. The per-share comparison would be \$7.52 against \$6.34 in 1929 on present common-share basis.

#### WARNERS CONTROL MUSIC UNITS

Income from the foreign markets is running considerably ahead of original estimates and the new musical divisions of the business also are doing exceedingly well. Warner owns a number of the most important musical publishers in the country and the joint management of this business, together with the production of sound films, is advantageous.

Warner is proceeding quietly with its theatrical expansion program, which is being handled without depleting current cash assets. New theaters are being built in a number of important cities and negotiations are under way for the acquisition of several theater chains in various sections of the country.

The new Hollywood Theater in New York will open on April 17 with Warner's latest success, *Hold Everything*, which has been making a record in receipts since its initial showing on the coast.

The current film releases are doing extremely well, especially the new John Barrymore picture *Man from Blankley's*, Al Jolson in *Mammy*, and *Under the Texas Moon*. The George Arliss pictures, *Disraeli* and *Green Goddess*, are both popular, as well as Marilyn Miller in *Sally*. Six of the current Warner productions and six First National productions are in Technicolor.

New pictures now being produced at Hollywood include films starring George Arliss, Marilyn Miller, John Barrymore, Al Jolson, and Otis Skinner.

#### CONSERVATIVE POLICIES FOLLOWED

Current earnings of Warner are being computed on an increasingly conservative basis. Both the rate of depreciation on buildings and the rate of amortization of films have been increased substantially this year. Buildings are now charged off at a minimum rate of 3 per cent annually against the former minimum rate of 2 per cent and positive films are written off in from 25 weeks to 52 weeks.

Steady progress is being made in consolidating the various properties acquired last year which was Warner's greatest year of expansion, and the whole system is now running smoothly with important operating economies beginning to take effect. The Stanley chain of theaters which was bought in the fall of 1928, together with the Skouras chain and other theater groups which were added in 1929, bring the total number of theaters operated under the Warner management to approximately 350 houses. Warner's holding of First National stock was rounded out by the purchase of the minority interest held by Fox Film Corporation, which Warner bought last fall for \$10,000,000 in cash, giving 100 per cent ownership. Obligations incurred including bank loans have been substantially reduced since the first of the year.

Warner's capital now consists of 200,000 shares of convertible preferred, and about 2,725,000 shares of no par common now paying \$4 annually. Common is selling currently around 75, against a high of 80 $\frac{1}{4}$  and a low of 30.

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[The Wall Street Journal, Thursday morning, April 10, 1930]

#### RASKOB ON WARNER BROS.—SEES PROGRESS FOR COMPANY WITH ATTRACTIVE POSSIBILITIES IN INDUSTRY

Before sailing for Europe aboard the *S. S. Roma*, for a six weeks' trip, John J. Raskob stated that he was interested in Warner Bros. Pictures because he was of the opinion that it was one of the best managed and organized companies in the amusement field. "I believe," he said, "that Warner Bros. will continue to do a very satisfactory business, and, looking ahead, it would appear to possess attractive possibilities along with the future of the motion picture industry."

As to the question whether he expected to be elected a director of the company, Mr. Raskob stated that he did not anticipate becoming a director.

[The Wall Street Journal, Monday morning, May 5, 1930]

WARNER BROS.

Estimates are heard that earnings of Warner Bros. Pictures in the quarter which ends this month might establish a new record, because May promises to be the largest of the year. Efforts of the management will be concentrated toward featuring the Warner displays throughout the country through special price inducements, advertising, and other plans.

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[The Wall Street Journal, Tuesday morning, June 10, 1930]

WARNERS BUYING MORE THEATERS—RECENTLY ACQUIRED 200 HOUSES—IMMEDIATE GOAL, 600—BIG PRODUCTION SCHEDULED

(Special from Boston News Bureau)

BOSTON.—Warner Bros. Pictures (Inc.) is now centering its energies upon the expansion of its theater circuit. In the past 60 days it has acquired by actual transfer or agreement approximately 200 additional theaters. Deals are pending for nearly 100 more, so that by midsummer at least 300 new units will have been acquired, thereby doubling the number of its theaters.

The Middle West and the South, but mainly the eastern Atlantic States, have been the sphere of expansion activities. Sizeable chains in West Virginia, New England, and South Chicago and Philadelphia have lately been acquired. As far south as Tennessee the movement has extended.

While 600 theaters is the immediate goal, the ultimate objective of the Warner Bros. management is to secure a theater wherever it has no outlet for its product. Additional theaters not only offer the needed channel for its own merchandise, but afford a much stronger trading basis in negotiating with competitive companies for exchanges of film offerings. H. M. Warner, in connection with the program for an immense theater circuit, has publicly stated that the theater manager rather than the public is the chief problem of the industry to-day.

Warner Bros. is still desirous of materially increasing the number of big houses in metropolitan New York. This program will, however, be no doubt deferred until favorable conditions in the realty mortgage market prevail.

The recent hot weather waves are affecting Warner Bros.' receipts in common with all of the big amusement companies. And the lack of outstanding new releases will also tend materially to cut down the rate of increase in earning power this final quarter of the year, June to August, inclusive, as compared with last year.

DIFFICULTY OF ESTIMATING EARNINGS

It is impossible for a number of reasons to estimate Warner Bros. results for the full year. In the first place, theater expansion is proceeding so rapidly, involving payment mainly in common stock and 6 per cent debentures, that no idea of the probable capitalization at the year end can be made. In the second place, it is entirely too early to forecast theater receipts. Again, just what effect the acquisition of Brunswick-Balke will have is quite uncertain. While the agreement for purchase was signed around April 1, due to auditing delays, actual transfer can not be consummated before June 15 or July 1, and how much earning power, if any, in this half year of unsettlement can be credited, is entirely problematical.

The Brunswick-Balke purchase, moreover, was made largely for the protection of patent position and not with the idea of obtaining immediate earning power. There will, of course, through the manufacture of records, over \$2,000,000 of which have heretofore been bought from the Victor Co., be a saving that from now on alone justifies the purchase.

Production schedules by the Warner Bros. properties for the 1930-31 year will be the most ambitious yet attempted. There will be 35 features made entailing an expenditure of \$17,500,000, which with \$2,500,000 for Vitaphone "shorts" will make a total commitment of \$20,000,000. First National program comprises 35 pictures, 15 to be known as de luxe and 20 as special attractions, the whole involving a smaller outlay than for Warner Bros.

[The Wall Street Journal, Wednesday morning, June 25, 1930]

# MOVIE EARNINGS DROP SEASONAL—DECLINE PARTLY RETURN TO NORMAL—NO SUMMER LULL LAST YEAR

## SECOND QUARTER ESTIMATES

Declines in income of moving-picture companies in May which continued into June make necessary a revision of previous estimates of current quarter's earnings of amusement stocks. The profit decrease is not entirely due to abnormal conditions in the industry, but may be regarded partly as a return to normal after the enormous gains made following the advent of sound films.

Prior to the "talkies," film earnings always had a seasonal decline in the summer, but that did not come last year because of the popularity of the "talkies." The present dip in profits presumably is not due to waning interest in the "talkies," but is simply the usual seasonal fluctuation, perhaps accentuated this year by general business conditions and unemployment.

It is probable, therefore, that amusement companies will report satisfactory earnings for the year, although profits will not come up to some of the more optimistic estimates that have been made. A great deal will depend on conditions in the last four months of this year.

## WARNER BROS. MAY EARN \$5.50 FOR YEAR

Warner Brothers Pictures in the first quarter of its fiscal year ended November 30, 1929, earned \$5,629,108, equal to \$2.07 a share on 2,645,864 shares then outstanding. In the second quarter, ended March 1, last, net of \$4,463,000, equal to \$1.62 a share on 2,666,211 shares was reported. It was predicted that profits in the third quarter ended May 30 would run as high as \$6,000,000, but it now seems probable that net profit for the period will be somewhere under \$3,500,000, or around \$1.20 a share, although official figures are not available.

Various adjustments in connection with the numerous recent acquisitions made by Warner make it difficult to arrive at any accurate estimate of profits for the period. Earnings for the first half of the fiscal year, however, have been equal to \$3.69 a share, so that even after allowing for a considerable decline in profits during the remainder of the year, the final showing should be around \$5.50 a share.

[Barron's, February 10, 1930]

# WARNER BROS. PICTURES IN FIRST QUARTER TO SHOW AROUND \$2 A SHARE FOR COMMON IN FIRST THREE MONTHS OF NEW FISCAL YEAR—PREFERRED BEING CONVERTED

The tremendous popularity of the talking motion picture has continued to swell the income of Warner Bros. Pictures (Inc.), the pioneer of the field. While final figures for the first quarter of the fiscal year, which began September 1, are not yet audited, preliminary indications point to net income after charges of between \$5,000,000 and \$5,500,000, probably nearer the top figure, unless unusual reserves are set up.

A net of around \$5,500,000 would compare with \$5,314,000 in the previous quarter and with \$2,917,000 for same period a year ago. Normally the big quarter of the year is the period ending May 31, for during the month of May occurs the "Warner Bros. month" all over the country.

There is a slow but steady conversion of the unique Warner Bros. preferred stock. This issue pays \$2.20 currently, is convertible into common on the basis of 88 shares of common for each 100 shares of preferred up to September 30, next. While the dividend rate on the preferred after the termination of the conversion privilege September 30, advances to \$3.85 a share the increased dividend (\$3.52) available through conversion has reduced the outstanding preferred since the close of the fiscal year August 31, last, from 288,056 shares to some 264,000 with the prospect of additional conversions before the common stock goes exdividend February 10.

On the basis, however, of 264,000 shares of preferred, the outstanding common amounts to approximately 2,630,000 shares on which earnings for the past quarter were, therefore, probably something better than \$2 a share. Warner

Bros. last year made an amazing showing, net jumping from \$2,000,000 in 1928 to over \$17,000,000, equivalent of \$6.33 a share. Prospects for 1930 favor \$9 to \$10 a share, upon which current dividend rate is \$4 a share.

The Warner Bros. working-capital position shows relatively little change from the \$16,314,000 figure as of August 31, last, following the sale of the \$19,205,000 optional 6 per cent convertible debentures. Incidentally, once the stock crosses 60 it becomes advantageous for a holder of the debentures to take stock at rate of one-quarter share in lieu of every \$15 cash interest. Surplus earnings since the start of the new year have been largely devoted to expansion of warehouse facilities heretofore leased and to the absorption of a few moderate-sized theaters.

Production schedule for this year calls for about 70 pictures. Biggest film success of year to date is "The Gold Diggers of Broadway," but the more recent "General Crack," with John Barrymore, has equal promise. It will be recalled that Warner Bros. electrified the amusement world last year with Al Jolson's "The Singing Fool," which to date has grossed in this country \$3,500,000; from that moving-picture film really dates the romance of the "talkies."

Speculative popularity of Warner Bros. on the Stock Exchange has led to a rapid widening of the stockholders' list. The company now has some 15,000 common and 3,000 preferred stock holders.

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[Barron's, March 10, 1930]

**WARNER BROS. PICTURES IN GOOD START—BOOKINGS INDICATE RECORD NET OF \$6,000,000 FOR THREE MONTHS TO MAY 31—OPERATING 350 THEATERS**

Warner Bros. Pictures (Inc.) has completed 1½ months of the third quarter of its fiscal year, and from advance bookings it is probable that net will make a record for any 3-months' period in the history of the company. Profits in the quarter ending May 30 may approximate \$6,000,000.

In first quarter of the fiscal year, which ended November 30, net was \$5,629,109, equal after charges to \$2.07 a share on the 2,645,864 shares of common.

Report for second quarter, ended February 28, is likely to show net of \$4,500,000, a record for any second quarter. The decline from the first quarter is partly seasonal, but is due mainly to the fact that no outstanding successes were released during the period, most of the year's leading films being released in the first and third quarters.

Thus in the first six months of the fiscal year Warner will report net of around \$10,100,000, equal, after preferred dividends, to around \$3.67 a share on 2,725,000 shares of common now outstanding. A net of \$6,000,000 in the third quarter will bring the total for nine months to above \$16,000,000, or \$5.40 a share. Profits in the final quarter are normally the smallest, since it includes the three summer months, and probably will not exceed \$4,500,000. This would give total net for the 1930 fiscal year approaching \$20,500,000, against \$17,271,806 in the year ended August 31, 1929. The per-share comparison would be \$7.52, against \$6.34 in 1929, on the present common-share basis.

#### WARNER CONTROLS MUSIC UNITS

Income from foreign markets is running considerably ahead of original estimates, and the new musical divisions are doing exceedingly well. Warner owns a number of the most important musical publishers, and the joint management of this business, together with production of sound films, is advantageous.

Warner is proceeding quietly with its theatrical expansion, which is being handled without depleting company's cash assets. New theaters are being built in a number of important cities, and negotiations are under way for acquisition of several theater chains in various sections.

The new Hollywood Theater in New York will open April 17 with Warner's latest success, *Hold Everything*, which has been making a record in receipts since the initial showing on the Pacific coast.

Current film releases are doing extremely well, especially the new John Barrymore picture, *Man From Blankleys*, Al Jolson in *Mammy*, and *Under the Texas Moon*. The George Arliss pictures, *Disraeli* and *Green Goddess*, are both popular, as well as Marilyn Miller in *Sally*. Six of the current Warner productions and six First National productions are in technicolor.

New pictures being produced at Hollywood include films starring George Arliss, Marilyn Miller, John Barrymore, Al Jolson, and Otis Skinner.

## CONSERVATIVE POLICIES FOLLOWED

Current earnings are computed on an increasingly conservative basis. Both rates of depreciation on buildings and amortization of films have been increased substantially this year. Buildings are now charged off at minimum rate of 3 per cent annually, against the former minimum of 2 per cent, and positive films are written off in 25 to 52 weeks.

Steady progress is being made in consolidating the properties acquired last year, Warner's greatest year of expansion, and the whole system is now running smoothly, with important operating economies beginning to take effect. The Stanley chain of theaters, bought in the fall of 1928, with the Skouras chain, and other theater groups which were added in 1929 bring the total number of theaters operated under the Warner management to approximately 350 houses. Warner's holdings of First National stock were rounded out by the purchase of the minority interest held by the Fox Film Corporation, which Warner bought last fall for \$10,000,000 in cash, giving 100 per cent ownership. Obligations incurred, including bank loans, have been substantially reduced since the first of the year.

Warner's capital now consists of 200,000 shares of convertible preferred and about 2,725,000 shares of no-par common now paying \$4 annually. The common is selling at 75, against the high of 80¼ and a low of 30.

[Barron's, April 14, 1930]

WARNER BROS. PICTURES (INC.) EARNINGS PROSPECTS—DEPRECIATION POLICY—  
FIRST NATIONAL PICTURES DEVELOPING SATISFACTORILY

Net profit of the Warner Bros. Pictures (Inc.) of \$5,629,109 after all charges for the three months ended November 30, 1929, constituting the first quarter of the new fiscal year, was in line with expectations. Actual balance for the 2,645,864 shares of common, after preferred dividends, estimated at over \$2, proved to be \$2.07 a share.

As statement of the first quarter is only a fortnight old, it is obviously impossible to estimate thus early, in a business so dependent upon the whims of public taste, profits for the second quarter. It is particularly difficult with Warner Bros. now that its foreign operations, through First National Pictures, have become increasingly important, inasmuch as it takes practically two months after closing of the books for returns from Australia and the Far East to filter in.

The depreciation charges in the motion picture industry are the all-important item. These are not made in a lump sum, but are applied against individual pictures, 20 per cent of the cost of negatives in the first six weeks, 50 per cent in 16 weeks, with the percentage mounting until complete write-off is accomplished in 88 weeks. The relative degree of success of new films at the outset, therefore, determines in the light of such charges the complexion of earnings statements and how various films to with the public in various sections can not be determined until the final figures are in.

It is perhaps safer under these conditions to attempt an estimate of profits for the full year, and at this wiring it looks as though Warner Bros. would be able to show well over \$8 a share, quite possibly \$8.50 a share, as against \$6.33 a share last year and \$4.98 a share the year before.

The second quarter will have the benefit of the full earning power of First National Pictures, which became 100 per cent-owned November 1, last, but otherwise there are no special developments. First National Pictures investment is coming along nicely, but it will take another year or two to reap the benefits of Warner Bros.' supervision of their picture-making and of the economies of distributing both lines of films. The third quarter, which includes the Warner Bros. Month of May, when the annual sales convention as well is held, is normally the big period.

For the current quarter the principal new releases are John Barrymore in *The Man From Blankleys*, Al Jolson in *Mammy* the fourth of the five pictures for which he contracted; *Under a Texas Moon*, and the screen version of the musical-comedy hit *Hold Everything*. Production for the current year is nearing completion and work has begun on some of the offerings for next year.

While Warner Bros. occupies first place in the motion-picture industry in point of earning power it is, with some 400 theaters, fourth in size. To widen distribution, new theater circuits are constantly being studied with a view to



purchase and the strengthening of the New York position will, when financing conditions warrant, probably be done in a big way.

With the common stock at 72 it obviously becomes more profitable for holders of the optional 6 per cent convertible debentures issued September 1, to take one-fourth share of stock instead of \$15 in quarterly interest. The exact effect upon the common stock structure, however, can not be calculated until after March 10, by which date holders must manifest their preference for cash. The outstanding ownership of these debentures is understood to rest with the Blue Ridge Corporation, sponsored by Goldman, Sachs & Co., who underwrote the issue.

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[Barron's, May 5, 1930]

#### WARNER BROS. PICTURES (INC.) PROSPECTS

SHOULD EARN AROUND \$3.55 A SHARE IN FIRST HALF YEAR ENDED MARCH 1, 1930,  
AGAINST \$4.75 A SHARE A YEAR AGO—THE NEW ACQUISITIONS

With final figures not available for several weeks, the indications are that Warner Bros. Pictures (Inc.), earned for the first half of its fiscal year, the six months ended March 1, last, in the neighborhood of \$10,000,000 after charges, a gain of approximately \$2,750,000, or 38 per cent, over the showing of \$7,254,570 for the half year ended March 2, 1929.

NOW HAS MORE THAN 2,750,000 SHARES

Due to the payment of interest upon the optional 6 per cent debentures almost entirely in stock (only 5 per cent was paid in cash March 1) and to the steady conversion of the \$2.20 preferred stock (conversion of over 100,000 shares in the past three months has cut down this issue to around 162,000 shares) the outstanding total of Warner Bros. common shares has been gradually increasing and now aggregates a trifle over 2,750,000 shares.

After allowance for preferred dividends, half year net of approximately \$10,000,000 would spell a balance for present common shares of \$3.55 a share and probably over \$3.60 a share for stock outstanding at the end of February. This would compare with \$4.75 a share for the 1929 half year, at the end of which (giving effect to the two-for-one split up of July 2) 1,969,818 common-share capitalization prevailed.

A net of around \$4,400,000 for the second quarter of the fiscal year would represent a balance for present common shares of approximately \$1.56 a share, as against \$2.07 a share in the first quarter and \$2.10 for the same period of 1929.

The third quarter of the year, which includes the "Warner Bros. month" of May is normally the biggest earning period and is likely to be no exception this year considering the vogue of the "talkies" and the popularity of the several new releases, viz, *Hold Everything*, the *Barrymore* film; *The Man From Blankleys*, and *Under a Texas Moon*. While conjectures now are rather uncertain, a record-breaking net in the neighborhood of \$6,000,000, or \$2.10 a share, appears probable as a contract to \$4,703,000, or \$1.90 a share, for the same period of 1929.

#### EARNINGS DECLINE IN FINAL QUARTER

The final quarter of the year, embracing the summer months, is always the smallest and from precedent should reflect a considerable let down in earnings, especially with a heavy production program under way while box-office receipts are falling. Profits may be tentatively estimated at \$4,000,000 to \$4,500,000, or \$1.40 to \$1.60 a share, against \$5,314,000, or \$1.96, last year when the company had the pole in the talking-picture race.

Total net for Warner Bros. for the full year ended Aug. 31 should run something over \$20,000,000, possibly \$20,500,000, against \$17,271,000 in 1929. On this basis final per-share balance would be \$7.12 to \$7.30, contrasting with \$6.34 a share in 1929.

Expansion plans of Warner Bros. pictures are continuing along a broad front. Major acquisitions lately have been musical division of Brunswick-Balke, an important interest in Tobis-Klangfilm, which dominates sound pictures in Germany and Switzerland and other parts of Europe through fundamental

patents, and the Handle & Rovner and Dispon Theater circuits, comprising 24 theaters, mainly in New Jersey, Ohio, up State New York, and a large house in Wheeling. Important theaters in Philadelphia and Newark and a good-sized unit in Ambridge, Pa., have also come into the fold. Financing of all this above mortgages was accomplished through issuance of \$15,835,000 additional optional 6 per cent debentures.

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[Barron's, June 30, 1930, p. 9]

#### MOVIE EARNINGS IN SEASONAL DROP—DECLINE IN PART A RETURN TO NORMAL

##### SECOND-QUARTER ESTIMATES

Declines in income of moving-picture companies in May, which continued into June, make necessary a revision of previous estimates of current quarter's earnings of amusement stocks. The profit decrease is not due entirely to abnormal conditions in the industry, but may be regarded partly as a return to normal after the enormous gains made following the advent of sound films.

Prior to the "talkies," film earnings always had a seasonal decline in the summer, but that did not come last year because of the popularity of the "talkies." The present dip in profits presumably is not due to waning interest in the "talkies," but is simply the normal seasonal fluctuation, considerably accentuated this year by general business conditions and unemployment.

It is probable, therefore, that amusement companies will report satisfactory earnings for the year, although profits will not come up to some of the more extravagant estimates that have been made. A great deal will depend on conditions in the last four months of this year.

##### WIDESPREAD CUTS UNLIKELY

Although several reductions in box-office prices have been made recently, notably by Fox in Detroit, Boston, and Brooklyn, there is no indication so far that general cutting will ensue.

Box-office prices in large Broadway houses range from 75 cents to \$1, some in other large city houses from 50 cents to \$1. It is, of course, possible that these prices will be reduced, particularly as a summer measure. However, the average of admission prices all over the country is less than 25 cents, and obviously it is unlikely that this average will be greatly reduced.

Since the industry as a whole was geared up to a high rate of income and was looking forward to the same kind of volume business that it enjoyed at box offices last summer, it was not prepared for the slump which came in May. As a result, theater expenses were not cut in proportion to the reduction in box-office income. This, of course, is now being done, and a better margin of profit should result.

From present indications, much depends on results of the last quarter. If the amusement companies enjoy their usual profitable year-end business stimulated by new film releases, the results for the year should be entirely satisfactory.

Warner Bros. pictures in the first quarter of its fiscal year ended November 30, 1929, earned \$5,629,108, equal to \$2.07 a share on the 2,645,864 shares then outstanding. In the second quarter, ended March 1, last, net of \$4,463,000, equal to \$1.62 a share on 2,666,211 shares, was reported. It was predicted that profits in the third quarter ended May 30 would run as high as \$6,000,000, but it now seems probable that net profits for the period will be somewhere under \$3,500,000, or around \$1.20 a share, although official figures are not available.

Various adjustments in connection with numerous recent acquisitions made by Warner make it difficult to arrive at any accurate estimate of profits for the period. Earnings for the first half of the fiscal year, however, have been equal roughly to \$3.69 a share, so that even after allowing for considerable decline in profits during remainder of the year, final showing should be around \$5.50 a share.

Paramount-Public reported an approximate net profit of \$4,800,000 in the first quarter of 1930, equal to \$1.79 a share on 2,685,313 shares, which compares with \$2,565,000, or \$1.16 a share, on 2,206,505 shares in the correspond-

ing 1929 quarter. There is no indication yet as to earnings in the second quarter, ending June 30, but a fair estimate would be around \$3,500,000, or about \$1.20 a share on the 2,896,876 shares now outstanding.

In view of the increase in capital stock, due to the acquisition of Canadian Famous Players and to finance other expansion, it is difficult to estimate per-share earnings for this year. It is probable, however, that Paramount will earn more than \$5 a share for the year if given a good last quarter.

#### PARAMOUNT FOREIGN EARNINGS SET RECORD

One factor that will add considerably to Paramount's earnings this year is the large revenues from foreign business, which have been running far ahead of last year in spite of language difficulties in the non-English-speaking countries. Film rentals from the British Empire have more than offset any loss in revenues from France and Germany, making income from foreign sources in the first half year the best on record. Indications are that this will be continued during the remainder of the year.

Loew's reported a net profit for the 28 weeks ended March 14, amounting to \$8,243,584, equal to \$5.70 a share on 1,372,108 shares of no-par common stock.

Loew's fiscal year ends August 31. Thus the period so far reported represents the most profitable part of the year. In the full year 1929, Loew's earned \$11,756,956, equal to \$7.91 a share on 1,363,993 shares of common. In the first half of 1929, net profit was \$5,251,958, equal to \$3.49 a share, and in the last six months of the year net profit was even large because of the sustained popularity of sound films last summer. It is not reasonable to predict that profits this summer will bring those of the half year to the same level as those of the first half of the year. It is likely, however, that net profit for the year will be \$13,000,000, or around \$9 a share.

Loew's is fortunate in having more successful films running at present than some of its competitors, which will help keep profits at a high level during the summer months.

#### FOX MAY EARN \$4 A SHARE THIS YEAR

Fox Film Co., which now controls Loew's, reported a net profit of \$4,604,684 in the first quarter, ended March 31, last, before interest and taxes, and in the 17 weeks ended April 26, net on the same basis was \$5,722,000, indicating that roughly \$1,100,000 was earned in April. In other words, profits in the first quarter were at the rate of \$1,500,000 monthly, and declined somewhat in April.

A net profit of under \$3,000,000, therefore, seems likely for the second quarter. With the prevailing decline during the summer months, there is no reason why Fox should report earnings this year substantially larger than in 1929. Net profit last year was stated to be \$11,848,276. Assuming that Fox is able to earn \$14,000,000 in 1930, before deducting taxes and \$3,300,000 interest on the \$55,000,000 debentures outstanding, the balance for the 2,520,660 shares of common this year will not exceed \$4 a share.

[Baron's, August 4, 1930]

#### WARNER BROS. PICTURES NOT EARNING DIVIDEND—NEXT QUARTERLY DOLLAR PAYMENT LIKELY TO BE MADE PENDING FALL REVIVAL—EXPANSION IS COMPLETED

Directors of the Warner Bros. Pictures (Inc.) meet for dividend action about August 6, the meeting having been postponed for a week or so due to the absence of President Harry Warner, who has been in Europe, and the inability to obtain a quorum. In view of the fact that earnings in the last six months of the fiscal year ending August 31, 1930, probably will not exceed \$5,000,000 and will be less than the dividend requirements on the 2,870,380 shares of common for the period, doubt is cast on the continuance of the present \$4 dividend rate. The current let down is largely seasonal, however.

In six months ended March 1 net profit was \$10,092,100, equal, after dividends on the 247,343 shares of preferred then outstanding, to \$3.67 a share on the 2,666,211 shares of common then outstanding. In the year ended August 31, 1929, net profit was \$14,514,628, equal to \$5.23 a share on the 2,627,405 shares of common. Including earnings of companies acquired during the year, Warner earned \$17,271,805 in 1929.

Assuming the Warner Bros. Pictures (Inc.) will earn about \$15,000,000 in the year ended August 31, 1930, net of about \$5.50 a share is indicated on the common which obviously does not cover the present \$4 dividend by a very wide margin. It is probable its plans have been somewhat upset by the rather unexpected decline in moving-picture earnings this summer, and, consequently, a reduction in rate to \$3 or \$3.50 might be prudent.

#### REGULAR DIVIDEND LIKELY THIS TIME

However, as amusement profits are at a low ebb during June and July and generally pick up in the fall, it is quite likely the board may defer any change in dividend pending results of the fall quarter. Unless this anticipated increase in profits materializes, a reduction in the dividend would seem advisable.

Warner Bros. the past two years has carried on a major expansion program which has been completed. Total fixed assets increased to \$110,870,822 August 31, 1929, from \$5,009,177 August 31, 1928. On March 1, 1930, fixed assets totaled \$120,054,068, and by end of fiscal year the total probably will be over \$150,000,000. Increased profits from this investment should be shown next year.

Total funded debt August 31, 1929, was \$70,023,622, and May 31, 1930, was \$76,957,460. This will be increased to about \$100,000,000 by new acquisitions by the end of the current fiscal year.

This expansion was considered expedient to give Warner an adequate position in the theater field, and full benefits of the system as an organized unit have not yet been shown. A number of important economies can be made in operating the various properties.

The most important result, however, is the substantial increase in Warner film buying power, which should result in corresponding increase in buying of Warner's pictures by other producers. Warner, for example, probably will sell its products to the Fox theaters next year, an outlet it did not have in 1929.

The Warner chain of theaters totals over 700, and the seating capacity is sufficient to place the Warner system on a plane with the other large groups, although it is not so large as Fox or Paramount.

Warner's new film program is more ambitious than that of 1929, and the new season has already started with Dawn Patrol, a flying picture well received at its preliminary showings at the Winter Garden Theater in New York.

#### SOUND PICTURES AND EARNINGS

Recent fluctuations in quarterly earnings of moving-picture companies have been more pronounced than usual, due to readjustment of the industry to sound films. Moving-picture earnings are large in fall and winter and decline in spring and summer. First three months of the year are normally the best, the fourth quarter second best, followed by the third and second quarters. The second quarter is normally the smallest, since June is one of the least profitable months.

Due to division of Warner's fiscal year, which ends August 31, under normal conditions all the good months are concentrated in first six months of Warner's fiscal year from September 1 to March 1. The second half includes the spring months April and May, which are normally fairly good; June and July, which are poor; and August, which is again fair.

The third quarter, ended May 30, was expected to be good, but, due to a combination of circumstances, profits were considerably below earlier estimates.

In view of the stable record of earnings which moving-picture companies, as a whole, have had, the chances are that Warner profits in first part of its next fiscal year will compare favorably with the 1930 first half.

There are 104,473 shares of Warner convertible preferred outstanding. This preferred pays \$2.20 annually and is convertible into 110,125 shares of common. Dividends start to accrue at rate of \$3.85 annually September 1, 1930, at which time the conversion privilege expires. In view of the small amount of stock outstanding, the increase in dividends will make no substantial difference in earnings available for the common. The stock is callable at 55, but there seems to be no immediate advantage to the company in doing this.

[Barron's, August 11, 1930]

## THE CHANGING MOVIE PICTURE

## HOT WEATHER TAKES TOLL OF THEATER ATTENDANCE—PASSING OF WARNER COMMON DIVIDEND FIRST CASUALTY SINCE DEVELOPMENT OF TALKIES

Although the motion-picture companies were immune to the business depression during the first quarter of this year, effects of the industrial let down and unusually warm weather this summer are shown in current reports. Earnings for the June quarter, while setting up new records for this period, are well below the first three months. Increased income this year of the big units is, of course, partly accounted for by inclusion of earnings of theaters acquired since June 30, 1929.

The passing of Warner Bros. Pictures common dividend is the first casualty in the amusement ranks since development of the talkies. Omission reflects failure of earnings to keep pace with its rapid expansion. Share capitalization has increased substantially. There are currently outstanding 2,968,050 shares of common, which had been on a \$4 annual basis, and 103,129 shares of \$2.20 dividend preferred.

Net income for the six months ending August 31, closing half of its fiscal year, is expected to be around \$5,000,000. This would compare with \$10,092,108 net for the first six months.

Paramount Publix net for the June quarter while 41 per cent ahead of the same period of 1929, showed a decline of 25 per cent as compared with the first three months of this year.

Radio-Keith-Orpheum June quarter net was \$350,231, against \$22,360 a year ago. As compared with the March, 1930, quarter, however, a decline of 81 per cent was shown. Net for the half year was \$2,166,133, against \$630,569 in 1929.

Coming report of Columbia Pictures Corporation for the year ended June 30, 1930, will show net of approximately \$1,250,000, indicating earnings for the June quarter of \$517,000, or more than double the showing of the previous three months.

While Fox and Loew's have yet to report earnings covering the summer months, it appears safe to assume that their showing will follow the general trend of the industry.

## DARK THEATERS

A recent survey of the theater situation showed that of the 16,000 listed as regulars 5,000 were closed. This figure was said to be higher than for any previous summer.

Despite the record breaking heat wave receipts of the first-run theaters in leading cities in recent weeks have been at a good rate. Earnings normally turn upward during the third quarter. In an effort to stimulate theater attendance some of the big companies have advanced initial showing of 1930-31 films a month, or from September to August.

Throughout the summer Universal's All Quiet on the Western Front has been a money maker. As a result of recent booking agreement with R-K-O this film is being shown in the latter's first-run houses. R-K-O's showing of Columbia films has been advantageous to both companies. First of Columbia's 1930-31 schedule, Rain or Shine, will be shown in R-K-O houses this month.

First National Pictures, controlled by Warner Bros., has a box-office success in The Dawn Patrol. Receipts from the first week's showing in the New York Winter Garden established a new record for that theater. In other centers the film has gone over well.

Among other current box-office successes may be mentioned Pathé's Holiday which is being shown in the Publix theaters, and United Artist's Raffles.

The day is past when practically all pictures are money makers for the sole reason that they are talkies. Many future releases are based on stage successes and best sellers, a type which producers feel will attract the theater-going public.

[Barron's, August 25, 1930]

## MOVING-PICTURE ATTENDANCE IMPROVES

REFLECTS COOLER WEATHER RECENTLY—GOOD ENTERTAINMENTS COMING

Rain and cooler weather have brought about a sharp recovery in attendance at moving-picture theaters the past fortnight. Public interest apparently reached its low during the recent hot weather, when many theaters operated at a loss. The industry, however, now feels that the usual fall recovery is under way and will be further stimulated by coming releases of new productions. From present indications the remainder of the year should be normally profitable.

Paramount Theater, in New York City, for example, featuring Anybody's Woman, had the largest Friday in its history August 15.

The importance of good pictures with real amusement value has been demonstrated more strongly than ever the past few months. Producers admit the principal cause for the slump was the generally poor average of showings that remained to be released from last year's output. Unemployment and the hot summer accentuated the decline in box-office receipts. Good pictures almost always draw their quota. This year it is probable that some producers held up important new films since it seemed inadvisable to release them while the extremely hot weather continued.

## EARNINGS DROPPED AWAY ON RISING TEMPERATURES

There are now about 400 theaters in the country with refrigerating systems, mostly large houses in big cities. While these enjoyed their normal income during the week despite the heat wave, week-end business in many city houses fell off, and in smaller houses hot weather affected earnings even more severely.

All the large producers exchange films for use in one another's theaters, so that the general quality of pictures affects the industry as a whole. It was necessary to do a certain amount of experimenting to determine public taste in sound films once the novelty of sound in itself wore off. It has been found that too many of the musical-comedy type of picture depending on spectacle, color, and singing for appeal, are unprofitable, and attention will be given the coming season to good plots, interesting dialogue, and popular stars.

Paramount is releasing Follow Through and the Four Marx Brothers in Animal Crackers. Loew's is doing well with several Marie Dressler films, including Caught Short, while Miss Dressler will also appear with Norma Shearer in Let us Be Gay. Loew's Big House, a prison picture, also has been popular.

Fox is starting the season with Common Clay, which has been held over for a third week at Roxy Theater and is showing attendance gains each week.

Warner Bros., after a disappointing summer, is shortly to release Old English, starring George Arliss, and Moby Dick, with John Barrymore in the lead. Dawn Patrol, the new flying picture, has attracted substantial patronage at the Winter Garden.

## NO APPRECIABLE EFFECT ON YEAR AS A WHOLE

While slack attendance during hot weather made a difference of \$100,000 or \$200,000 a week to some large theater chains, it is unlikely to have any appreciable effect on results of the year as a whole to Paramount, Loew's, or Fox. Warner Bros., due to a combination of circumstances, will show a deficit in the quarter ending August 31.

Paramount Public reported estimated net, after all charges in first six months, of \$8,434,000, equal to \$2.98 a share on 2,832,277 average number of shares outstanding. This compared with \$5,130,000, or \$2.31 on 2,224,683 average shares in like 1929 period. On this basis, Paramount should earn close to \$6 on its average shares for this year, and over \$5 on 3,256,479 shares now outstanding.

Loew's (Inc.) reported net of \$8,243,584 before subsidiary preferred dividends for 28 weeks ended March 14, against \$5,251,958 in 28 weeks ended March 10, 1929. While this represents the most profitable portion of the year, Loew's

has had an unusually good list of pictures this summer and thus should be able to show close to \$10 a share for the year ending August 31.

Fox Film reported net, after all charges in first six months, of \$7,175,415, equal to \$2.84 a share on 2,525,660 shares, against \$5,137,075 or \$2.03 a share on present capital in first half of 1929. August business has been ahead of a year ago.

Warner Bros. earned approximately \$11,750,000 in first nine months of its fiscal year, but operations this quarter will result in a loss, so that net for the year ending August 31 will probably be slightly less than \$4 a share on 2,823,796 shares of common now outstanding, against \$14,514,628, or \$5.23 a share on 2,627,405 shares last year.

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[Barron's, October 27, 1930]

WARNER BROS. PICTURES

The December 1 dividend on Warner Bros. Pictures (Inc.) preferred stock will be at an annual rate of \$3.85 a share. Under the stock provisions the shares, which have been on a \$2.20 annual basis, were convertible into common up to and including September 1, 1930. Increase in the dividend will compensate for the expiration of the conversion privilege.

There were originally 785,605 shares authorized and listed on the New York Stock Exchange in December, 1928. At present there are but 103,107 shares listed.

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[The Financial World, April 23, 1930]

WARNER BROS.—B

Company has completed one month of the third quarter of its fiscal year and from advance bookings it is probable that it will make a new high record for any three months' period in the history of company. Profits in the current quarter ending May 30, 1930, will probably approximate \$6,000,000, equal to about \$2.17 a share on 2,725,000 common shares.

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[Financial World, August 6, 1930]

WARNER BROS.—B

Postponement of dividend meeting has caused unsettlement regarding what action will be taken on the payment due at this time. In view of the fact that earnings for the last half of the current fiscal year to end August 31, 1930, may not exceed \$5,000,000, which amount would be insufficient to cover dividends on the 2,870,000 shares of common stock, it is not surprising that apprehension has been aroused as to whether or not the company will continue to pay the present \$4 annual dividend rate. Lower earnings are attributed to seasonal conditions, although it is understood that some of the latest talking picture productions may not have proven as profitable as the successes of last year. It is becoming more clearly evident that the public can no longer be attracted by the novelty of the "talkie" and that future productions in order to be profitable must possess greater appeal.

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[The Financial World, August 20, 1930]

WARNER BROS.—C

Omission of dividends has been followed by reports of impending new financing which is expected to take the form of an offering of additional class A stock to present shareholders with 1,000,000 shares at a price of \$22 a share mentioned. Concurrent with these reports is one that control of the company has passed from the Warners to Du Pont-Raskob interests. The latter is known to own substantial amounts of the company's stock.

The CHAIRMAN. I may state that I have a copy of an article which appeared in the Washington Post of January 27, 1932, giving a part of the speech that Mr. Harry M. Warner made here on the occasion of the annual meeting, and in which he implores the public to think kindly of business and not ill. I ask that that be made a part of our record. If there is no objection it is so ordered.

A story covering Mr. Warner's appearance on this occasion is carried in the columns of the Washington Post of January 27, 1932, page 20, column 1. The references to Mr. Warner are as follows:

\* \* \* An address was made by Harry M. Warner, president of Warner Bros. (Inc.), the contributors of the motion picture (Washington—The Man and the Capitol).

Mr. Warner made an appeal for stronger faith in the moving-picture industry, asking for less criticism and the cultivation of a habit of looking for the good in the business rather than the bad. He predicted that the moving pictures will act as a powerful medium in bringing about world peace through the ultimate establishment of a universal language.

In regard to the bicentennial picture, he said that he has personally guaranteed any losses that the picture may sustain so as to protect the stockholders.

Mr. GRAY. In order that the committee may see the connection between some matters that have been offered here and the connection of certain other matters which will be offered before the committee, with reference to the stock exchange itself and the rules of the exchange, I want now to put upon the record certain abstracts from the constitution and from the rules of the exchange.

Article 17 of the constitution, section 4, provides as follows:

Purchases or sales of securities or offers to purchase or sell securities, made for the purpose of upsetting the equilibrium of the market and bringing about a condition of demoralization in which prices will not fairly reflect market values, are forbidden, and any member who makes or assists in making any such purchases or sales or offers to purchase or sell with knowledge of the purpose thereof, or who, with such knowledge, shall be a party to or assist in carrying out any plan or scheme for the making of such purchases or sales or offers to purchase or sell, shall be deemed to be guilty of an act inconsistent with just and equitable principles of trade.

Article 20 of the constitution, section 6, provides as follows:

A member of the exchange who is a general partner in a firm represented thereon is liable to the same discipline and penalties for any act or omission of said firm, as for his own personal act or omission; but the governing committee may in its discretion, by a vote of not less than thirty members, relieve him from the penalty therefor.

I present that because of the fact that some members of firms, and the different brokerage houses, which firms are members of the stock exchange, may not in themselves be floor members or have a seat on the exchange, but the man who is a member of the exchange and holds a seat is responsible under that section of the constitution for the acts of the other members of the firm, and therefore is, of course, within the control of the stock exchange.

The rules of the stock exchange, chapter 8, section 1, provide as follows (these exceptions being unusual situations where it may be necessary to do that very thing):

No member shall publish an advertisement of other than a strictly legitimate business character.

The rules of the stock exchange, chapter 11, sections 1 and 2, provide as follows:



No member, while acting as a broker, whether as a specialist or otherwise, shall buy or sell directly or indirectly for his own account or that of a partner, or for any account in which either he or a partner has a direct or indirect interest, securities the order for the sale or purchase of which has been accepted by him or his firm or a partner for execution, except as follows:

(Exception (a).) A member who, by reason of his neglect to execute an order, is compelled to take or supply on his own account the securities named in the order, is not acting as a broker, and shall not charge a commission.

(Exception (b).) A member may take or supply the securities named in the order provided the price is justified by the condition of the market and provided that the member who gave the order shall directly, or through a broker authorized to act for him, after prompt notification, accept the trade and report it.

(Exception (c).) A member, acting as a broker, is permitted to report to his principal a transaction as made with himself when he has orders from two principals to buy and to sell and not to give up, such orders being executed in accordance with section 13 of chapter 1, in which case he must add to his name on the report the words "on order."

When a member either takes the book of a specialist temporarily or an order from another member, he shall, while he is in possession of that book or order and for the balance of that particular day, stand in the same relationship to the book or order as the specialist or other member himself.

The rules of the stock exchange, chapter 12, section 9, provide as follows:

No member or firm shall give to an employee on the floor of the exchange discretion to give orders for the purchase or sale of securities, nor shall any such employee exercise such discretion.

The rules of the stock exchange, chapter 14, section 3, provide as follows:

The direct or indirect employment of representatives of the press by a member, for the purpose of obtaining advance or confidential information, is forbidden.

The rules of the stock exchange, chapter 14, section 4, provide as follows:

The circulation in any manner of rumors of a sensational character by a member, in any case where such act does not constitute fraud or conduct inconsistent with just and equitable principles of trade, is an act detrimental to the interest or welfare of the exchange.

Members shall report to the secretary of the exchange any information which comes to their notice as to the circulation of such rumors.

Senator FLETCHER. Mr. Gray, I presume the by-laws fix the number of members of the governing committee?

Mr. GRAY. The constitution establishes that, and if you would like to have it put on the record, I will be very glad to do it.

Senator FLETCHER. I wish you would.

Mr. GRAY. Article 2 of the constitution of the New York Stock Exchange provides:

The government of the exchange shall be vested in a governing committee, composed of the president and the treasurer of the exchange, and of 40 members elected in the manner hereinafter provided.

The members of the governing committee, the assistant to the president, the secretary, the first assistant secretary, the accountant, and the economist shall be the officers of the exchange.

Now, with respect to the matter of election, article 3, section 1, provides:

The elected members of the governing committee shall be divided into four classes, each consisting of 10 members, one of which classes shall be elected each year, to serve four years.

Then on the subject of powers, section 2 of that same article provides:

The governing committee shall be vested with all powers necessary for the government of the exchange, the regulation of the business conduct of its members, and the promotion of its welfare, objects, and purposes.

Now, with respect to the business conduct committee, article 10, under the fourth subdivision, provides, this article relating to standing committees:

A committee on business conduct to consist of six members.

It shall be the duty of this committee to consider matters relating to the business conduct and financial condition of members and their customers' accounts, and to observe the course of transactions on the exchange, with the view to seeing whether resort is being had to improper transactions.

It shall have power to investigate the dealings, transactions, and financial condition of members, and to examine their books and papers. It may confer with members regarding any matter within its jurisdiction and advise the president in respect to any such matters; and it shall report to the governing committee any matter which in its judgment requires the consideration of that committee.

That gives you the set-up with respect to the control of the affairs of the various brokerage houses that are members of the New York Stock Exchange.

The CHAIRMAN. All right. You may proceed with your testimony.

Mr. GRAY. Mr. Lion.

The CHAIRMAN. You will stand, hold up your right hand, and be sworn: You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matter now under investigation by the committee, so help you God.

Mr. LION. Yes.

### TESTIMONY OF DAVID M. LION, OF NEW YORK CITY

Mr. GRAY. So that the committee may understand the matter which I am now going to present, permit me to say that I am going to show by Mr. Lion himself that he is a publicity man, and that for a period of three years he was acting for numerous brokerage houses in the city of New York, that he furnished through various journals, including radio speeches, publicity for certain stocks, pools which were then being operated by the brokerage houses, he being paid for such by cash and by being given calls on the particular stocks in question, at prices that he could sell them to his advantage, the brokerage house of course giving him credit for same in an account which he carried and settling with him the same as they would settle with any other person who had actually bought and sold, he not being required to put up any cash at all.

Now, Mr. Lion, please give us your full name.

Mr. LION. David M. Lion.

Mr. GRAY. Where do you live?

Mr. LION. New York City.

Mr. GRAY. Whereabouts in New York City?

Mr. LION. 221 West Thirty-second Street.

Mr. GRAY. What is your business?

Mr. LION. Financial publicity.

Mr. GRAY. How long have you been engaged in that business?

Mr. LION. Five years or more.

Mr. GRAY. Prior to engaging in that business and for the past five years have you at any time conducted a paper of your own?

Mr. LION. Yes.

Mr. GRAY. What was the name of that paper?

Mr. LION. The Stock and Bond Reporter.

Mr. GRAY. Did you say the Stock and Bond Reporter?

Mr. LION. Yes, sir.

Mr. GRAY. During what period of time did you conduct that paper?

Mr. LION. I published the Stock and Bond Reporter for about seven years.

Mr. GRAY. Is it still being published?

Mr. LION. No.

Mr. GRAY. When did it cease publication?

Mr. LION. In '28.

Mr. GRAY. Do you mean in 1928?

Mr. LION. Yes.

Senator COUZENS. Might I ask the witness to speak louder. We do not hear him down here at this end of the table.

Mr. LION. All right.

Senator FLETCHER. What time in 1928?

Mr. LION. To the best of my recollection it was about June of 1928.

Mr. GRAY. When you say you are a publicity man, won't you explain to the committee what the work is that you do?

Mr. LION. Well, I receive said calls on various stocks, and reports that I had from companies at various times that are received through the research and financial manuals, and I would have an editor to present the facts.

Mr. GRAY. You started to tell me when I asked you what your publicity work consisted of as to really how you were paid. I want to know, first of all, if you please, what it was you were to do and by whom you were employed to do those things.

Mr. LION. Well, I was given calls by a great many operators, if you consider that employment. Some of the calls were profitable and some were not.

Senator COUZENS. What do you mean by "calls"?

Mr. LION. Calls on stocks.

Senator COUZENS. Explain that to us. I am a novice and would like to know what you mean by calls. Was it from brokers?

The CHAIRMAN. Do you mean options to buy?

Mr. LION. No; calls.

The CHAIRMAN. Then go ahead and explain it for Senator Couzens.

Mr. LION. For instance, if you operate a pool, evidently you have either bought stock or had an option on stock, and if you had a surplus in your pool that you wanted to give a call on, you would give a call around the market, and then if the stock went up it was profitable, and if it did not, I assumed the loss.

Mr. GRAY. Now, Mr. Lion—

Senator COUZENS (interposing). I do not understand that yet.

Mr. GRAY. I will clarify it. I will say, Senator Couzens, I would rather it would come in his own language rather than mine if I can

get him to tell it clearly in that way. Now, Mr. Lion, what actually happened in those cases was this, was it not: That when some broker or operator on the exchange was interested in the management of a pool through which he anticipated trading in certain stocks, and being desirous of boosting the prices of those stocks, he would send for you and indicate to you that he wanted publicity on a particular stock or stocks, and in payment for that publicity he would give you what?

Mr. LION. A call.

Mr. GRAY. And that call meant that he would put, say, 25,000 shares of the stock in your name, for you, and for you to call upon if you choose to do so at any time, thus giving you an opportunity when that stock was closed up at a certain price, to sell that stock, either all of it or a portion of it, if the market went up, and make the difference in cash. That is the situation, isn't it?

Mr. LION. Well, that would be true referring to some calls, and then there were calls that were given that I didn't have to do anything with.

Mr. GRAY. What do you mean by saying you did not have to do anything with them?

Mr. LION. Well, as far as the publicity you are asking me about.

Mr. GRAY. Do you mean that some operators or brokers for whom you had acted on other occasions, would from time to time give you a little interest in the pool they were operating by giving you a call?

Mr. LION. I don't know if there was any pool.

Mr. GRAY. You say you don't know?

Mr. LION. I don't know in that particular case that it was a pool.

Mr. GRAY. You do not?

Mr. LION. I have had several calls that I don't think were pools. For instance, if you had 50,000 shares of radio and you wanted to give me a 10,000-share option on it, it does not necessarily have to be a pool.

Senator GLASS. Then why give you 10,000 shares?

Mr. LION. Why give it to me?

Senator GLASS. Yes.

Mr. LION. Why does anybody give anything?

Senator GLASS. Well, sometimes people give for charitable purposes.

Mr. LION. Well, it might have been given to me as charity. There have been times when I needed it.

Senator GLASS. Well, did you need it then?

Mr. LION. I have needed it lots of times in my life.

Senator GLASS. Do you mean to say that those stock operators gave you that stock as a matter of charity?

Mr. LION. Sometimes.

Senator GLASS. When it was done in expectation of service?

Mr. LION. Well, I don't say exactly it was a matter of charity. I was not sitting there with a tin cup in my hand. But I have had calls already where I didn't have to do anything for the pool.

Senator COUZENS. Tell us just what you had to do in one case where you did have to do anything.

Mr. LION. The most of my work I got calls on I did publicity for them.

Senator COUZENS. Tell us how you went about giving publicity. Now, how did you go about it?

Mr. LION. How did I go about publicity work?

Senator COUZENS. How did you go about giving publicity?

Mr. LION. Well, I would canvas the various pool operators to get work for them.

Senator COUZENS. That does not explain how you gave the publicity.

Mr. LION. I am coming to it now.

Senator COUZENS. All right. Go ahead.

Mr. LION. And if I could get an option or a call on some stock I would use my publication, and I would use the radio, and I would use newspapers, printing facts that were taken out of various financial manuals.

Senator COUZENS. Did you pay for this radio and newspaper publicity?

Mr. LION. Yes.

Senator FLETCHER. Your function and work really were to do what they call make a market, was it?

Mr. LION. No, sir. I never made any markets.

Senator FLETCHER. You never made any markets?

Mr. LION. No, sir.

Senator FLETCHER. Did you ever hear that expression on the exchange?

Mr. LION. Making a market?

Senator FLETCHER. Yes.

Mr. LION. The market is made every day.

Mr. GRAY. The making of a market, Mr. Lion, is done by the operators themselves, in the buying and selling of stock. That is right, isn't it?

Mr. LION. Yes.

Mr. GRAY. What Senator Fletcher refers to very likely is the aid that you gave to those men that were making the market by keeping the particular stock in which they were operating before the public through newspaper articles, through your own articles, or the radio talks. That is true, isn't it?

Mr. LION. Well, I imagine it got by, it helped the market.

Mr. GRAY. In other words, what you did, for the purpose of aiding the value of the stock in which you had your call, it being to the interest of both yourself and the pool operator or specialist or trader, or whoever he may have been, that the stock should go up, and your articles were always published for the purpose of interesting the public in that stock, convincing them, if possible, that it was a stock that had a future and would rise in value.

Mr. LION. That is correct.

Mr. GRAY. Let me ask you about your radio talks. When did you begin to use radio talks for the purpose of disseminating information?

Mr. LION. To the best of my recollection, it was in the spring of 1927.

Mr. GRAY. Did you say the spring of 1927?

Mr. LION. Let me correct that. The spring of 1928.

Mr. GRAY. How long did you continue the use of the radio for the purpose of disseminating information about stocks?

Mr. LION. I used it all of 1929.

Mr. GRAY. Up to the end of 1929?

Mr. LION. Yes, sir.

Mr. GRAY. Now, you did not do your own radio talking, did you?

Mr. LION. No, sir.

Mr. GRAY. What was the name of the man you employed to do your radio talking?

Mr. LION. I employed William J. McMahon.

Mr. GRAY. Was it spelled M-c-M-a-h-o-n?

Mr. LION. Yes, sir.

Mr. GRAY. Who is he?

Mr. LION. He was an economist.

Mr. GRAY. Well, he conducted an organization in New York City of his own, did he not?

Mr. LION. Prior to being employed by me; yes, sir.

Mr. GRAY. What was the name of that organization?

Mr. LION. The New York Financial Research Bureau.

Mr. GRAY. And McMahon was the New York Financial Research Bureau. It was a purely business enterprise, wasn't it, of his own?

Mr. LION. I think so.

Mr. GRAY. And when Mr. McMahon—By the way, where did he talk from, New York always?

Mr. LION. Yes. He never talked anywhere outside of New York.

Mr. GRAY. How frequently did you use him?

Mr. LION. Every week.

Mr. GRAY. How was he introduced over the radio?

Mr. LION. He was introduced as the president of the McMahon Institute of Financial Research.

Mr. GRAY. Which was just Mr. McMahon.

Mr. LION. He was the president of that institute.

Mr. GRAY. He was the president and the whole institute, wasn't he?

Mr. LION. The president of the whole institute?

Mr. GRAY. Yes; he was the president and the whole institute. There is no question about that, is there, Lion?

Mr. LION. That is not clear to me, Mr. Gray.

Mr. GRAY. I mean to say that there wasn't any institution known as the McMahon Institute of Financial Research. It was only a name. That is all that it was, wasn't it?

Mr. LION. It was incorporated.

Mr. GRAY. You say it was incorporated?

Mr. LION. Yes, sir.

Mr. GRAY. Did it do anything outside of the radio talks?

Mr. LION. Did it do anything?

Mr. GRAY. Yes; outside of the radio talks?

Mr. LION. Well, Mr. McMahon's articles were published in newspapers.

Mr. GRAY. Newspapers and radio?

Mr. LION. Yes.

Mr. GRAY. He was introduced as an economist of some note. I suppose, when he talked over the radio, wasn't he?

Mr. LION. He was introduced as an economist. I don't know about the note.

Mr. GRAY. Each of his talks was devoted to a particular stock, wasn't it?

Mr. LION. No.

Mr. GRAY. Sometimes only one stock?

Mr. LION. Yes, sir.

Mr. GRAY. Whether to one or more stocks it was a stock or stocks in which you had a call at the particular time or in which you were interested?

Mr. LION. Well, he talked at times on general market conditions without mentioning any stocks.

Mr. GRAY. But when he ended up his talk as a usual thing, he referred to a particular stock and boosted it. That is true, isn't it?

Mr. LION. Yes, sir.

Mr. GRAY. And he was a salaried man on your staff for that purpose, wasn't he?

Mr. LION. Yes, sir.

Mr. GRAY. How much did you pay him?

Mr. LION. I paid him as high as \$250 a week.

Mr. GRAY. Did you say \$250 a week?

Mr. LION. Yes, sir.

Mr. GRAY. How long did he talk? Was it a 15-minute talk?

Mr. LION. Yes; he rarely talked longer than 15 minutes.

Mr. GRAY. How else did you disseminate your information?

Mr. LION. Just what do you mean by that, Mr. Gray?

Mr. GRAY. Well, now, you engaged in publicity work. You have told us that you had a paper of your own which you used, and that you had McMahon from 1928 to the end of 1929 talking over the radio. What other methods of publicity did you employ?

Mr. LION. I employed newspapers.

Mr. GRAY. You mean writers, I suppose?

Mr. LION. I don't know what they were. I would give them a copy of an article and sometimes it was in the paper and sometimes it wasn't.

Senator COUZENS. Did you give them anything else besides an article?

Mr. LION. Yes.

Senator COUZENS. What did you give them besides an article?

Mr. LION. Sometimes I gave them calls.

Senator COUZENS. You mean by that options on certain stocks?

Mr. LION. Yes.

Senator COUZENS. Did you give them any cash?

Mr. LION. Sometimes.

Senator COUZENS. But it depended upon who the writer was or the publication that he was employed by? Was that how you regulated the amount you gave him?

Mr. LION. Yes, sir.

Mr. GRAY. So that the committee may understand the extent of your work, Mr. Lion, how many such operations would you have on hand at one particular time?

Mr. LION. I had over 30 at one time.

Mr. GRAY. Over 30 at one time?

Mr. LION. Yes, sir.

Mr. GRAY. And by whom would you be employed?

Mr. LION. Pool operators.

Mr. GRAY. You would be employed by pool operators?

Mr. LION. Yes, sir.

Mr. GRAY. Also by individual traders?

Mr. LION. Yes.

Mr. GRAY. And also by pool operators who were members of brokerage firms and were operating pools for their own houses at the time; isn't that correct?

Mr. LION. Yes, sir.

Mr. GRAY. Who were the operators that you worked for?

Mr. LION. I worked for Mr. Cutten.

Mr. GRAY. What Mr. Cutten?

Mr. LION. Ruloff Cutten.

Mr. GRAY. He is with E. F. Hutton & Co.?

Mr. LION. Yes.

Mr. GRAY. Who else?

Mr. LION. I worked for Mr. Breen.

Mr. GRAY. For George F. Breen, do you mean?

Mr. LION. Yes, sir.

Mr. GRAY. Is he an independent operator?

Mr. LION. Yes, sir.

Mr. GRAY. By the way, George F. Breen, who operated in Kolster Radio stock, and whom the committee will remember testified here, and he testified that he gave nothing for the publicity of his operations. You worked for him, Mr. Lion, didn't you?

Mr. LION. Yes, sir.

Mr. GRAY. You gave him publicity when he was operating the Kolster Radio pool—yes, I will say it was a pool; for there were three or four people in it.

Mr. LION. I don't know just the way that option came. I don't know whether from Mr. Breen or Mr. Cutten.

Mr. GRAY. Well, it was during the time that Breen was operating in Kolster Radio, was it not?

Mr. LION. Yes.

Mr. GRAY. And Mr. Breen dealt through E. F. Hutton & Co., didn't he?

Mr. LION. I don't know where Mr. Breen dealt.

Mr. GRAY. All right. Well, somebody gave you for publicity purposes while Breen was operating his Kolster Radio pool a call on some of that stock, didn't he?

Mr. LION. Yes, sir.

Mr. GRAY. How much stock?

Mr. LION. Fifteen thousand shares.

Mr. GRAY. Fifteen thousand shares. Did you exercise your call?

Mr. LION. To my recollection I exercised 12,000 shares.

Mr. GRAY. What?

Mr. LION. To my recollection I exercised 12,000 shares.

Mr. GRAY. Twelve thousand shares. Now that call was through E. F. Hutton & Co., was it not? And when I say "through," I mean by that it was lodged with them—and I will explain that in just a moment—was it not?

Mr. LION. It was not a written call. If I got that call either from Mr. Cutten or Mr. Breen the margin office would have been—or the trading office, rather, would have been instructed that I had a call on that much stock and I could trade on it. That is, not particularly in E. F. Hutton.

Mr. GRAY. Anyone?



Mr. LION. Anyone.

Mr. GRAY. But the call was lodged in E. F. Hutton & Co.?

Mr. LION. That is correct, sir.

Mr. GRAY. That is to say, the trading department of E. F. Hutton & Co. was told that you had there a credit that you could call upon of 15,000 shares of Kolster Radio. Now that permitted you to go into any brokerage house in the city of New York and sell any portion of that stock when you were ready to do so, that is right, is it not?

Mr. LION. No; that is not true, Mr. Gray.

Mr. GRAY. Why not?

Mr. LION. Because any brokerage house in New York City would not let me trade on a verbal call.

Mr. GRAY. Well, they would confirm it from E. F. Hutton & Co., wouldn't they?

Mr. LION. Well, they would ask for a written call to protect themselves.

Mr. GRAY. You did a lot of your trading at Louchheim, Minton & Co., didn't you?

Mr. LION. Yes.

Mr. GRAY. And what you did in this particular instance was to go in to Louchheim, Minton & Co. and sell Kolster Radio stock, and they would confirm the call from E. F. Hutton & Co., isn't that true?

Mr. LION. That is true.

Mr. GRAY. And so that we may have the dates on the record, it was in the month of November, 1928, that you exercised that call, isn't that correct?

Mr. LION. Well, I don't remember the date, Mr. Gray. I had lots of calls. I can't remember the dates for a period of four odd years. You ought to know the dates. You have got the accounts from those houses.

Mr. GRAY. Yes. You will accept my statement that that date was in November of 1928, will you not?

Mr. LION. May I see it? Well, in 1928, Mr. Gray, I did quite some trading in Louchheim, Minton & Co. I imagine that that particular trade that you speak of was there.

Mr. GRAY. I show you your account with Louchheim, Minton & Co. I direct your attention to the entries with respect to Kolster Radio, and ask you whether or not it was not on the 13th, 15th, and 16th, and 19th of November, 1928, that you exercised those options?

Mr. LION. It must be. This is a duplicate of the accounts from Louchheim, Minton & Co.

Mr. GRAY. Yes. Those dates fit in with the operations in Kolster Radio by Breen. What did you make out of that deal? Do you recall?

Mr. LION. Oh, I would say \$40,000.

Mr. GRAY. You would say \$40,000. Now, you put up no money?

Mr. LION. No.

Mr. GRAY. And you got all of that for the publicity that you furnished for that pool?

Mr. LION. Well, the publicity cost money. I put no money up for the option. Is that figure correct now, Mr. Gray?

Mr. GRAY. As to your operations?

Mr. LION. Yes.

Mr. GRAY. I can only say to you—you asked me the question—that from such confirmations as we have been able to get—and I do not know whether we have got them all or not—we show a profit of at least \$26,414.87. I think your figure of \$40,000 is probably more nearly accurate. By the way, suppose you tell this committee how much stock did you trade in through calls during the years 1928 and 1929 and, we will say, 1930, in the way that you have just described the operation in these 15,000 shares? Give it to me either in shares if you can or give it to me in dollars and cents.

Mr. LION. Well, that would be a very difficult question for me to answer, Mr. Gray.

Mr. GRAY. Well, you have already told me, have you not, that you received calls in upwards of \$6,000,000 worth of stock during that time?

Mr. LION. You mean by that that the purchase price of the stocks would amount to \$6,000,000?

Mr. GRAY. Yes.

Mr. LION. I imagine that is correct.

Mr. GRAY. Is it not probably very much greater than that?

Mr. LION. I do not think so.

Mr. GRAY. What was your profit from the calls themselves during those three years?

Mr. LION. Now, do you mean my individual profit or what I made off these calls.

Mr. GRAY. Well, suppose you tell us both. Tell us first of all, if you please, what you made from these calls, leaving aside the expenditures that you were put to for radio and other things. What were your gross receipts from these calls?

Mr. LION. In the whole time that I have done publicity?

Mr. GRAY. Well, take those two or three years, or take the years of 1928 and 1929, which were were the two active years. Well, and up into 1930, too.

Mr. LION. I would say my personal profit was a half a million dollars.

Mr. GRAY. You mean after taking your expenses off?

Mr. LION. No; just profit.

Mr. GRAY. Lion, didn't you tell me the other day that you made between a million and two million dollars?

Mr. LION. I said—I did not say that I made \$2,000,000, Mr. Gray.

Mr. GRAY. I did not say that. Didn't you tell me that your personal profit from these calls was between a million dollars and \$2,000,000?

Mr. LION. Yes; but there were expenses there that I couldn't call my profits.

Mr. GRAY. All right. Then your half million dollars was your net?

Mr. LION. That would be more accurate.

Mr. GRAY. That would be your net. All right. You kept no books, I suppose?

Mr. LION. Yes; I kept books.

Mr. GRAY. Of account?

Mr. LION. Pardon?

Mr. GRAY. Books of account showing these transactions, how much you got, and how much you spent?

Mr. LION. Yes.

Mr. GRAY. Where are they?

Mr. LION. These various firms, I kept books on them, naturally. Accounts.

Mr. GRAY. Kept your own books, do you mean?

Mr. LION. Yes.

Mr. GRAY. Where are they?

Mr. LION. Well, when I went out of business some of them were destroyed.

Mr. GRAY. Have you got any now?

Mr. LION. I have some in some warehouses.

Mr. GRAY. Do you have anything more than some of the things that you produced to me?

Mr. LION. Just what do you mean by that?

Mr. GRAY. You produced certain papers to me. Have you any other accounts than those?

Mr. LION. No.

Mr. GRAY. Well, now, tell me some of the other pools you operated in. Were you in Sinclair Consolidated?

Senator COUZENS. Before you get into that may I ask Mr. Lion—

Mr. GRAY. Certainly, Senator Couzens.

Senator COUZENS (continuing). If the income-tax officials checked your books to verify your income-tax returns?

Mr. LION. They honeycombed, them, Senator.

Senator COUZENS. That is good.

Senator FLETCHER. What other concerns?

Mr. GRAY. I have got plenty of them here, Senator. I am not going to take you over the details of each one of those pools as I did Kolster. But we want to know first: You were in Sinclair Consolidated, were you not?

Mr. LION. Yes.

Mr. GRAY. Where did you get that call?

Mr. LION. From Mr. Cutten.

Mr. GRAY. That is the same Mr. Cutten that you spoke about before. Where did you do your trading? Through what firm?

Mr. LION. E. F. Hutton & Co.

Mr. GRAY. That was an operation of a pool, was it not?

Mr. LION. Yes.

Mr. GRAY. Quite a big pool, was it not?

Mr. LION. I imagine it was.

Mr. GRAY. And Mr. Cutten was operating that pool, was he not?

Mr. LION. I don't know that he was operating it. I imagine there were several operators in it, Mr. Gray.

Mr. GRAY. As a matter of fact, the active control of the pool itself, that is to say, the actual management, was Ruloff Cutten, while the nominal manager of the pool was Arthur W. Cutten, of Chicago; wasn't that true?

Mr. LION. I don't know that.

Mr. GRAY. You don't know that. Now, in that case did you give them the same kind of publicity that you did Breen and Kolster?

Mr. LION. Yes.

Mr. GRAY. How much did you make off of that pool and off your calls?

Mr. LION. I had 25,000 shares of Sinclair Oil.

Mr. GRAY. Did you exercise your option as to all of it?

Mr. LION. I think I did.

Mr. GRAY. Well, was that an instance where they recalled part of that call?

Mr. LION. Yes; they did. I remember that call was canceled. I think I exercised about 14,000 shares. I think I exercised all but about eleven or twelve thousand shares of it, and they wanted the call canceled.

Mr. GRAY. They wanted the call canceled?

Mr. LION. They wanted the remainder of the call canceled.

Mr. GRAY. Why?

Mr. LION. I don't know. Maybe the pool was dissolving. And I received, if I remember correctly, 44—the profits on ten or eleven thousand shares of that stock.

Mr. GRAY. You got a check for that, didn't you?

Mr. LION. Yes.

Mr. GRAY. Now, let us see if we have got that picture clearly. You had an option on 25,000 shares of stock, and you had exercised all of it with the exception of about 9,000 shares, had you not?

Mr. LION. I don't know if it was 9,000, 10,000, or 11,000.

Mr. GRAY. Well, somewhere around that amount?

Mr. LION. Yes.

Mr. GRAY. And your call was at 40 or 41; is that correct?

Mr. LION. Yes; that is correct.

Mr. GRAY. And for some reason—possibly the dissolution of the pool—they sent for you and canceled the rest of the call; that is right, isn't it?

Mr. LION. Yes.

Mr. GRAY. And when they canceled the rest of the call, the market on that stock being 44, they gave you a check for the difference between the price of that stock at your call or 40 or 41 and the market at 44; that is correct, is it not?

Mr. LION. Yes.

Mr. GRAY. And you put up no money?

Mr. LION. No.

Mr. GRAY. You never even exercised your call as to that part?

Mr. LION. Well, I might have called the stock from them to get the check.

Mr. GRAY. In other words, you might have let them put through on the books the sale of the stock for the purpose of getting the check?

Mr. LION. I didn't let them put through any sale.

Mr. GRAY. Do you know whether they did that or not, or just whether they gave you a check and charged it to that pool account?

Mr. LION. I don't know what they did.

Mr. GRAY. You don't know what they did?

Mr. LION. I know I got a check for it.

Mr. GRAY. How much did you make out of that Sinclair Consolidated?

Mr. LION. Well, that particular transaction, when you ask about the canceling of that call, I think I got a check for \$27,000 on that.

Mr. GRAY. You got a check for \$27,000?

Mr. LION. If I remember correctly.

Mr. GRAY. Do you know what your full profit was?

Mr. LION. On the 25,000 shares?

Mr. GRAY. Yes.

Mr. LION. No; I do not, Mr. Gray.

Senator COUZENS. May I ask you what you did with that \$27,000? Did you divide it up with anybody?

Mr. LION. No, sir.

Mr. GRAY. You answered Senator Couzens?

Mr. LION. Yes.

Senator COUZENS. He answered "No."

Mr. LION. The answer is "No."

Mr. GRAY. "No." Will you accept my figures that from the papers that you furnished to me you made from the Sinclair Consolidated \$46,790.39?

Mr. LION. How much, Mr. Gray?

Mr. GRAY. \$46,790.39 from those calls and the check that they gave you?

Mr. LION. Well now, if I did—if that is the amount I received from that call, I am confused on the other figure, because when I stated in answer to your question a while ago the amount of \$46,000 I thought that that was the amount of the Sinclair stock.

Mr. GRAY. I see. So that the figure that I have, to go back for a moment, on Kolster Radio of \$26,414.87 is very likely the correct figure on Kolster?

Mr. LION. That is about right, sir.

Mr. GRAY. Yes. While this figure of \$46,000 and some odd is what you made on Sinclair Consolidated?

Mr. LION. I think that is correct, sir.

Mr. GRAY. Yes. Now do you remember just when that Sinclair Consolidated pool took place? The records show that it was in December of 1928. Is that correct? And early January of 1929, when they gave you the final check?

Mr. LION. Well, if the records are there from those brokerage offices that would be correct, sir.

Mr. GRAY. Your recollection is that it is about that time?

Mr. LION. I don't remember, Mr. Gray, just when that was.

Mr. GRAY. All right. Well now, what other big pools did you act for? You handled two or three General American Tank pools; did you not?

Mr. LION. Yes.

Mr. GRAY. Were they for Hutton & Co.?

Mr. LION. Cutten.

Mr. GRAY. Well, they were for Cutten who was with Hutton & Co.?

Mr. LION. That is correct.

Mr. GRAY. Yes. Generally speaking what did you make out of General American Tank?

Mr. LION. Mr. Gray, I can't remember all of those things.

Mr. GRAY. All right.

Mr. LION. You are taking me over a period of four years. I haven't got the memory—

Mr. GRAY. Well, let me just ask you some general questions. You handled about three different pools in General American Tank, did you not?

Mr. LION. I handled the pools?

Mr. GRAY. No; when I say you handled the pools, you handled your end of it—you handled the publicity end of it for the pool manager?

Mr. LION. I don't know if it was three.

Mr. GRAY. More than one?

Mr. LION. Well, the dates on those transcripts that you have from those houses would evidently tell you if it was more than one.

Mr. GRAY. Well, the records of E. F. Hutton & Co. show that there were three.

Mr. LION. Well, if the records show that there were three, there must have been three. Pardon me, Mr. Gray, what dates were they? The various dates on General American Tank?

Mr. GRAY. One was from November, 1928, to January, 1929. One was from July 1, 1929, until a later date in July, 1929.

Mr. LION. Well, that was two operations.

Mr. GRAY. Yes. You were in both of those?

Mr. LION. Yes.

Mr. GRAY. One was from January, 1930, to March, 1930.

Mr. LION. Yes. That was the third.

Mr. GRAY. You gave the publicity in all of those?

Mr. LION. Yes.

Mr. GRAY. Did you have a transaction in Bush Terminal?

Mr. LION. I did.

Mr. GRAY. You could not recall the other day who gave you that option or call. Do you recall now?

Mr. LION. No; I do not. It was some house in the Equitable Building. It was a very small call.

Mr. GRAY. You mean by that some brokerage house?

Mr. LION. Yes.

Mr. GRAY. You were in Consolidated Textile, were you not?

Mr. LION. Yes.

Mr. GRAY. I suppose you have no knowledge of the profits that were by the pools in those General American Tank transactions, have you?

Mr. LION. No.

Mr. GRAY. May I say to the committee, and this can be proven from our accounts—I am not going to stop to do it now—that in the first of those pools there was a profit of \$649,948. In the second of those pools on the dates that I have given there was a profit of \$321,797.91. And in the third of them there was a profit of \$241,298.75. That in the Sinclair Consolidated pool, which he has already testified about, the profit was over \$550,000. These records, of course, have all been examined, and we have the absolute figures from the accountants for it.

Senator FLETCHER. Those are the profits of the pool?

Mr. GRAY. The profits of the pool.

Senator FLETCHER. What did he get out of General American Tank?

Mr. GRAY. Can you tell Senator Fletcher or the committee what the amount was you profited from General Tank Co.?

Mr. LION. I do not remember those figures, Mr. Gray.

Mr. GRAY. It is a little difficult, Senator, to get all of the figures. I will say to you that from his records in one of the pools alone he got \$10,836.87. But only in one of the pools as far as his end of it is concerned have I got the records.

The CHAIRMAN. The publicity on these pools generally ran only for a month or two, as I understand it?

Mr. LION. Well, it was rarely you would get a call, Senator, over 30 days.

The CHAIRMAN. So, what profit was made in any of these transactions was usually done within 30 days?

Mr. LION. That is correct, so far as I was concerned.

The CHAIRMAN. And you handled about 30 pools?

Mr. LION. Oh, I have handled more than 30 pools.

The CHAIRMAN. Yes. You had 30 at one time?

Mr. LION. That is correct.

Senator COUZENS. May I ask you, Mr. Gray, if you have a sample of the publicity that was given at that time?

Mr. GRAY. We have not, sir. I will say to the committee that as the result of my investigations I, of course, ran into Mr. Lion and put him under subpoena, and we have been doing the best we can to get all of the information. Some of it I got before I came here, and the rest of it I have got to get from him here. I will ask him a question that will develop something along that line, though, Senator Couzens.

You were in the Richfield Oil pool, were you not; that is to say, you were given the publicity work for the Richfield?

Mr. LION. Yes, sir.

Mr. GRAY. Who handled that?

Mr. LION. Well, I received a call on Richfield Oil from Mr. Talbot, the president of the company.

Mr. GRAY. From Mr. Talbot, the president of the company. And who gave you the information that they wanted disseminated through the various channels, over which you had control?

Mr. LION. If I remember correctly, I got some information from Mr. Talbot at his apartment in the Ambassador Hotel, New York.

Mr. GRAY. Yes. And did you get the call from him also?

Mr. LION. No; I got that call in Hutton's.

Mr. GRAY. You got that call in Hutton's, but you mean Talbot lodged it in Hutton's for you?

Mr. LION. That is correct.

Mr. GRAY. That was a direct operation of the man that was interested in the affairs of the company, who was president of the company?

Mr. LION. Yes; he was president.

Mr. GRAY. Now, he gave you the information. Did you check up on it at all, or did you publish just what he asked you to publish?

Mr. LION. No; we checked up on the information that we could check up on. That is with statistics.

Mr. GRAY. Yes. In other words, any information that you could check up on by looking at the Standard Statistics you would check up on, but as to the inner operations of the company, whatever he might tell you, you did not know anything about it at all, did you?

Mr. LION. Well, as an example, if Richfield Oil brought in a good well to-day we would not get that out of Standard statistics to-day. That would be company news. And that would go over wires as confidential news. Not the newspapers.

Mr. GRAY. Well, you published whatever you were asked to publish, did you not?

Mr. LION. No; I did not, sir.

Mr. GRAY. By the way, when was this Richfield Oil deal?

Mr. LION. I do not know just what year that was, Mr. Gray.

Mr. GRAY. Where is Talbot now?

Mr. LION. I do not know. I know the man was in difficulties——

Mr. GRAY. In difficulties. And in jail?

Mr. LION. He is in jail?

Mr. GRAY. No; wasn't he when he got into difficulties?

Mr. LION. He was indicted.

Mr. GRAY. Yes. Over these transactions in Richfield Oil?

Mr. LION. So I read.

Mr. GRAY. Yes. Don't you know any more about it than what you read?

Mr. LION. No.

Mr. GRAY. That is the man that gave you the information which you published?

Mr. LION. Yes.

Mr. GRAY. Now, you were in Liggett & Myers, weren't you, giving them publicity?

Mr. LION. Not giving Liggett & Myers publicity. I was giving publicity for the pool.

Mr. GRAY. Yes. And where was that pool operated?

Mr. LION. Ira Haupt & Co.

Mr. GRAY. Ira Haupt & Co. H-a-u-p-t. Who gave you that call? Was it Alexander?

Mr. LION. Yes.

Mr. GRAY. Alexander is a member of the firm of Ira Haupt & Co., isn't he?

Mr. LION. No.

Mr. GRAY. His full name is what? Oscar Alexander?

Mr. LION. Yes.

Mr. GRAY. He is one of the cotraders with Breen, is he not? He and Breen work together?

Mr. LION. They did. I don't know if they still do.

Mr. GRAY. They did. Well now, do you know when the Liggett & Myers transaction was? January, 1929, was it not?

Mr. LION. You have all those dates, Mr. Gray.

Mr. GRAY. Well, will you accept that as being correct?

Mr. LION. Yes. Those are my accounts.

Mr. GRAY. How many shares did you have an option on there?

Mr. LION. If I remember correctly in Liggett & Myers I had 10,000 shares.

Mr. GRAY. Did you exercise that call as to all of it?

Mr. LION. I think I did.

Mr. GRAY. Do you know that your profit in Liggett & Myers was \$15,468.12?

Mr. LION. It might have been.

Mr. GRAY. Is that about what you think it was?



Mr. LION. I can't remember those figures, Mr. Gray. That is very difficult for me to do. I had hundreds and hundreds of calls. I can't tell you what I got on every call.

Mr. GRAY. How many calls?

The CHAIRMAN. You made so much profit it is hard to remember it, didn't you?

Mr. LION. No; I would not say that, Senator; but he is not asking me about any that I lost money with. Those are the only ones I made money with. I lost money.

The CHAIRMAN. There were a great number of them?

Mr. LION. Sir?

The CHAIRMAN. There were a great number of them?

Mr. LION. Well, there were plenty of them.

Mr. GRAY. But notwithstanding your losses you made the amounts that you told us?

Mr. LION. Yes.

Mr. GRAY. Yes. Well, now, you also had one in Continental-Diamond Fiber from Hayden, Stone & Co., another brokerage house, didn't you?

Mr. LION. Mr. Gray, now you can keep me here until to-morrow morning if you are going to ask me where I had all of these calls. You have all of my accounts. A majority of those items are all on options that I received.

Mr. GRAY. Yes.

Mr. LION. There was very little trading that I have done in those accounts.

Mr. GRAY. That is to say, you did very little trading of your own, where you put up any money on margin?

Mr. LION. I never put up any money on margin.

Mr. GRAY. Even in your trading?

Mr. LION. No, sir.

Mr. GRAY. You were so closely in touch with these brokerage houses doing this other work that when you wanted to on your own account buy and sell anything they would let you do it?

Mr. LION. Well, in a great many instances, if you put it that way, there was sufficient money in there to let me do these things.

Mr. GRAY. Sufficient money in these other calls, in these other transactions?

Mr. LION. Yes.

Mr. GRAY. Generally speaking you did business with Hayden, Stone, didn't you? Never mind the details, you did business with them?

Mr. LION. I had calls from Hayden, Stone.

Mr. GRAY. With Harde & Sharp, didn't you?

Mr. LION. Yes.

Mr. GRAY. With H. L. Goldberg & Co.?

Mr. LION. Well, that was a small curb deal.

Mr. GRAY. That was a curb deal. From Cohen, Simonson & Co.? Is that right?

Mr. LION. Yes.

Mr. GRAY. You handled the Budd Manufacturing Co.'s publicity and the Budd Wheel publicity, did you not?

Mr. LION. Yes.

Mr. GRAY. You handled the Hayes Body Corporation's publicity, didn't you?

Mr. LION. Yes.

Mr. GRAY. And that curb transaction you spoke of was Paramount Cab, was it not?

Mr. LION. That is correct.

Mr. GRAY. You handled the Borg-Warner publicity?

Mr. LION. Yes.

Mr. GRAY. National Cash Register?

Mr. LION. I don't remember that that was publicity or not, sir.

Mr. GRAY. All right. Through Harde & Sharp you handled the Dunhill International publicity, didn't you?

Mr. LION. Yes.

Mr. GRAY. You handled the Monsanto Chemical through E. F. Hutton, or Mr. Cutten, which ever you choose to designate?

Mr. LION. No, Mr. Cutten never had to do with it, Mr. Gray.

Mr. GRAY. Who did?

Mr. LION. I think that was done, if I remember, by Mr. Loeb.

Mr. GRAY. Who is Mr. Loeb?

Mr. LION. Loeb is a member of E. F. Hutton & Co.

Mr. GRAY. Loeb is a member of E. F. Hutton & Co. And, by the way, in your trades with Hayden, Stone & Co. did you always get calls or did you get cash?

Mr. LION. No, I received cash for some work.

Mr. GRAY. Straight out and out checks without any covering up by stock transactions at all, didn't you?

Mr. LION. Yes.

Mr. GRAY. How many different checks from Hayden, Stone & Co.?

Mr. LION. To the best of my recollection, there may have been four or five.

Mr. GRAY. Four or five. Did you get checks from other brokerage houses?

Mr. LION. I can't remember of any, Mr. Gray.

Mr. GRAY. Now, you did a lot of work for Prentice & Slepach, didn't you?

Mr. LION. No; I didn't do a lot of work there. I did some work there.

Mr. GRAY. You did some trading there, too?

Mr. LION. Yes.

Mr. GRAY. What do the initials "B. I. E." stand for in connection with Prentice & Slepach's accounts? Who was the man in Prentice & Slepach that you dealt with?

Mr. LION. A man by the name of Bieber.

Mr. GRAY. Bieber. He was the secretary of a member by the name of Kunz?

Senator COUZENS. You mean a member of the stock exchange?

Mr. LION. Mr. Kunz was a member of the stock exchange.

Senator COUZENS. May I ask Mr. Gray if he intends before he gets through without too lengthy an examination to indicate what effect all of this had upon the New York Stock Exchange market?

Mr. GRAY. If you please, Senator, it is absolutely against the rules of the stock exchange for these brokers, as I construe these rules, to conduct these operations in the first place. It is certainly against

the rules, as I have introduced them to-day, for a pool operator—and in each one of these cases except where the traders, such as Breen and Alexander have been mentioned—to have engaged this man for the purpose of disseminating information to aid him, the pool operator, while he was making the market in the various trades as you have seen in the radio pool and other pools we have introduced. It was simply keeping up the price and the publicity, and for that this man either got directly or indirectly cash. I think it is a very reprehensible practice.

Senator COUZENS. We are not discussing that. I was wondering what effect these operations that you have been describing actually had on the market.

Mr. GRAY. I can not prove what effect they had, Senator, but I have shown you that in these various pools, while he gave them publicity, the pool managers were making trades on the floor and made money.

Senator COUZENS. What was the trend of the stock during those periods?

Mr. GRAY. I haven't the trend of all these various stocks during the period that this man was operating.

Senator COUZENS. Don't you think that is necessary to at least indicate the effect that this man's operations had upon the trend of the market?

Mr. GRAY. I can get for you and put upon this record the trend of the stock during the period that each of these pools were operated. I can get for you and put upon the record in this case before this committee the operations of every one of those pools. In what limited time we have had it has been impossible to run down those ends of it, because it is six months of work. In this General American Tank I have shown you what the profits were, and I have shown you what the profits were in Sinclair Consolidated. I can show you the range in General American Tank.

Senator WALCOTT. Does it not all depend on whether this publicity is based on fact or whether it is misrepresentation of fact? Publicity on a stock which gives accurate facts without misrepresentation, of course, is perfectly legitimate. The reverse of that is not legitimate. Now, if the reverse is true—in other words, if there was misrepresentation of fact here—what effect has that had on the market?

Mr. GRAY. You won't get this man, whose business it was to furnish publicity—

Senator WALCOTT (interposing). No; I understand.

Mr. GRAY (continuing). Whose business it was to furnish publicity in the manner that he has, and in the employment of an economist such as he indicated over the radio to broadcast information and to suggest the purchase of certain stocks, to admit that there was ever any false information disseminated. I have worked with him for two or three days and I have not been able to get him to admit it, because he would naturally say to me, "What do you expect me to do? Go down to Washington and say that?" But to prove whether or not those articles were false I can, if I have time—but I will need six months' time—take up those articles and take up the data and statistics with respect to the particular companies at

that time and find out and show to this committee whether they are false or not. But in the limited time I have had those things are absolutely impossible.

Senator FLETCHER. How have the stocks gone since?

Mr. GRAY. These various stocks? Well, you can talk about any one of them, Senator, and they have gone down; that is a good guess about it—any one of them.

The CHAIRMAN. I understand this ballyhooing was done when the stocks were near the peak?

Mr. GRAY. Yes.

The CHAIRMAN. And the average to-day is about 15 per cent, is it, of what they were at that time?

Mr. LION. No; some of them have gone lower than 15 per cent, sir.

The CHAIRMAN. I said the average?

Mr. LION. Richfield Oil that he questioned me about has gone to nothing.

The CHAIRMAN. And what did you recommend it at? At what point?

Mr. LION. Oh, if I remember correctly, it was up in the forties—was it not, Mr. Gray?

Senator GLASS. Forty-four, I believe, was indicated here.

Mr. LION. That was Sinclair, Senator.

Mr. GRAY. Sinclair Consolidated; yes. The record already indicates that he had his option at 40. As a matter of fact, what he did with Sinclair was to close out 2,000 shares at  $45\frac{3}{4}$ , 3,000 shares at  $41\frac{1}{2}$ — $41\frac{3}{4}$ , 5,100 shares at  $41\frac{1}{2}$ —42, 1,900 shares at  $41\frac{1}{2}$ — $41\frac{5}{8}$ . And then they took back from him 10,000 shares at 44, and gave him a check for it, because the pool operations were closed. And in that Sinclair Consolidated that the pool made \$550,000.

The CHAIRMAN. And he made \$46,000 for publicity?

Mr. GRAY. He made \$46,000.

The CHAIRMAN. Yes.

Mr. GRAY. The \$46,000 was independent of the pool.

The CHAIRMAN. How high was the Sinclair Consolidated stock at that time a share?

Mr. GRAY. It went to over 46 during the time the pool was operating. It closed at the time this pool quit and took back this stock at  $44\frac{1}{2}$ — $44\frac{1}{2}$ .

The CHAIRMAN. Now it is down to what?

Mr. LION. Sinclair was recently consolidated——

The CHAIRMAN. Well, how low did it go to before they consolidated?

Mr. LION. Sinclair Consolidated stock sold for \$4—around \$5.

Senator GLASS. Well, the whole point is, I take it, Mr. Gray, that these stock brokers were engaged in illicit transactions prohibited by the stock exchange?

Mr. GRAY. I believe that that is so. I believe that this testimony establishes that fact, sir.

Senator COUZENS. Well, who is your next witness, then, Mr. Gray?

Mr. GRAY. If the committee believes that I have covered this sufficiently, I won't touch it any more, but I have got a large number of other transactions that he was in.

The CHAIRMAN. I would suggest, if it meets with the approval of the committee, that you hurry over this and give a list of the transactions.

Senator BULKLEY. Can you not stipulate with Mr. Lion as to the transactions? He seems to agree that those statements are all right.

Mr. GRAY. We will cover it much more rapidly. You handled in the same manner as you have indicated in these various pools from Hutton & Co., United Carbon, did you not? It might have been a trade, Mr. Lion.

Mr. LION. I do not recall ever having it.

Mr. GRAY. All right. Did you handle Brockway Motor?

Mr. LION. Yes.

Mr. GRAY. I have asked you about Dunhill International.

Senator GLASS. There is no use of going over those again.

Mr. GRAY. I submit there is no use of going further. How many accounts do you suppose during those three years you have handled all together? You said you have had in operation at one time over 30. How many did you handle all together over that period of two or three years?

Mr. LION. That would be a very difficult question to answer.

Mr. GRAY. Can you not approximate it for the committee?

Mr. LION. I could not approximate it. I do not know.

Mr. GRAY. Two hundred and fifty?

Mr. LION. I would say I had that many.

Mr. GRAY. You had at least that many?

Mr. LION. I would not say at least. I do not know. I imagine I had that many.

The CHAIRMAN. I suggest that the names of these other firms of which you have a record, Mr. Gray, be placed in the committee hearings for reference, if there is no objection, so that we may have more complete information.

Mr. GRAY. All right.

Senator BULKLEY. The witness agrees that Mr. Gray has a statement of his accounts.

The CHAIRMAN. The witness agrees that Mr. Gray has a complete statement.

Mr. LION. Mr. Gray has as complete information as he could get on the trades for those particular stocks. They have gone around to the various houses and got my accounts. You can not get anything more definite than that data. Now, what Mr. Gray has shown me from Hutton and Louchheim, Minton I would say is accurate.

The CHAIRMAN. He has only inserted a part of it, and I am suggesting that the rest of it be placed in the hearings, if there is no objection.

Senator BULKLEY. I think the witness should get a chance to go over it.

The CHAIRMAN. I am giving him a chance to do so.

Senator WALCOTT. Why can not the proof be submitted to the witness before it is published?

The CHAIRMAN. Can you reach an agreement as to what would be covered by this?

Mr. GRAY. I think we have covered it generally, but I will put it in the record. That is a transcript of your account with E. F. Hutton & Co., is it not? [Handing same to Mr. Lion.]

Mr. LION. That is the entire account, Mr. Gray?

Mr. GRAY. It is the entire account between these dates.

Mr. LION. Pardon me?

Mr. GRAY. If you will look at the dates there you will get them. Is that correct?

Mr. LION. Yes, sir.

Mr. GRAY. I show you your account between the dates of May 2, 1929, and May 6, 1930.

Mr. LION. That is correct, sir.

Mr. GRAY. And all of those items mentioned therein are transactions where you had calls for the purpose of furnishing publicity?

Mr. LION. No, sir.

Mr. GRAY. Were there any trades?

Mr. LION. I think you have a thousand shares of steel there that I bought.

Mr. GRAY. All right. Is that the only item there that is a trade?

Mr. LION. I had no option on steel.

Mr. GRAY. Is that the only item that is a trade and not an option?

Mr. LION. I do not know. I just looked at the dates. There may be some trades there, Mr. Gray.

Mr. GRAY. So you may make no mistake about it, Mr. Lion, will you look through it again and tell us any of those transactions that are trades and that are not operations on call?

Mr. LION. I do not think Safeway Stores are.

Mr. GRAY. All right, you point out any that you do not think have anything to do with the calls.

Mr. LION. I do not think Columbia Graphophone is a call. I do not remember having a call on that.

Mr. GRAY. Mark that as a trade.

Mr. LION. I may have now. I would not say that I did not. Paramount-Famous Players was a call. I don't think that is a trade. Raybestos was a call. Transue Williams was a call. Indian Motorcycle was a call. American Seating, that is no call, that was a trade. Reynolds Tobacco was a call. Worthington Pump was a call. Phillips Petroleum was a call. General Foods was a call. International Telephone was a trade. Radio was a trade. The rest—

Mr. GRAY (interposing). Aside from those you have mentioned the rest are calls?

Mr. LION. Yes, sir.

Mr. GRAY. Now, it will be interesting to the committee to see how those appeared. For instance, through the brokerage house of E. F. Hutton & Co. he sold on May 2, 1929, 200 shares of Borg-Warner at 138; on May 3, 300 shares of Borg Warner at 137; and on May 3, 200 shares of Borg-Warner at 140; with the figures carried out here making 700 shares. And then after they are sold the call is checked against them on the other side, the profit on that matter—that is a small matter—he is given a check. As you go down the line you will find 3, or 4, or 5 calls. And then he exercises a call, and you will find here they are sending the checks to him.

Senator FLETCHER. On those you call a trade did you do anything in the way of publicity?

Mr. LION. No, sir.

Mr. GRAY. It was simply trades?

Mr. LION. Yes, sir.

Senator FLETCHER. Did you do any publicity in them?

Mr. LION. No, sir.

Mr. GRAY. It was just those he went into for a day, and he thought he had a right to make a point or two.

Senator FLETCHER. Even so, I wanted to know.

Mr. GRAY. This statement or transcript, if the committee desire, may go into the record.

The CHAIRMAN. Without objection, it is so ordered.

(The statement of D. M. Lion, in account current with E. F. Hutton & Co., so ordered printed in the record, is here printed in full, as follows:)





21	Check	100	do	3438	1,000.00	3,418.50	5,300.50
22	do				1,000.00		1,900.50
23							7,798.00
24	Graham Paige	100			3,327.50	3,418.50	
25	Check				3,500.00		3,900.50
26	Graham Paige	100			3,315.00		585.50
27	Check				500.00		85.50
30							
July							
1	General American Tank Car	500					
2		300			46,350.00	85.50	85.50
3	Check	200				28,353.00	
4						18,952.00	1,010.50
5					500.00		540.50
6		200				19,002.00	
7		300				28,578.00	
8		100				9,626.00	
9		100				9,401.00	
10		100				9,576.00	
11		100				9,551.00	
12	General American Tank Car	500			46,350.00		
13	do	400			37,080.00		3,011.50
14	Check	5			2,000.00		1,011.50
15	do				350.00		651.50
16		100				9,426.00	10,120.50
17	General American Tank Car	900			83,430.00		
18	do	200			18,540.00		
19		200				19,127.00	
20		200				19,177.00	
21		200				19,102.00	
22		100				9,538.50	
23		100				9,526.00	
24		200				19,102.00	3,623.00
25	Check	100			3,623.00		0.00
26	Skelly oil	300				4,321.50	4,321.50
27	do					12,889.50	
28					4,177.50		
29					4,132.50		
30					4,060.00		4,791.00
31					4,063.00		726.00
Aug.					700.00		26.00
1	Graham Paige	500			5,450.00		
2						13,405.00	
3					2,665.00		
4					2,665.00		
5					2,640.00		531.00
6					500.00		31.00
7							
8	Credit balance						
9	Graham Paige	200				5,337.00	
10	do	100				2,681.00	
11		200				5,387.00	
12		100				2,706.00	
13		100				2,718.50	

In account current with E. F. Hutton &amp; Co.—Continued

Date	Bought	Sold	Price	Debits	Credits	Balance
1929 Aug.						
2	500	Graham Paige	27		\$2,681.00	\$21,541.50
3		Graham Paige	26	\$13,075.00		
3		do	27		5,362.00	
3		do	26 3/4		5,337.00	
3		do	26 3/4		2,656.00	
3		do	26 3/4		5,337.00	27,158.50
3		Check	26 3/4	1,000.00		26,158.50
3	100	Graham Paige	25 5/8	2,577.00		
3	100	do	25 1/2	2,565.00		
3	700	United Gas	26 1/2	18,655.00		
3	1,100	do	27	29,865.00		
3		United Gas	28		6,952.50	
3	200	do	27 1/2		5,462.00	
3	300	do	27 5/8		8,230.50	
3	100	do	27 3/4		2,756.00	
3	800	do	28 1/4		22,348.00	
3	200	do	28 1/4		5,612.00	
3	200	Graham Paige	26 1/2		5,292.00	29,119.00
3	1400	Graham Paige	26	36,610.00		
3	100	Grand Rapids Varnish	19	1,912.50		
3	100	do	21	2,112.50		
3		United Gas	28 1/2		5,662.00	
3	50	do	28 3/4		1,400.25	
3	200	Graham Paige	26 5/8		5,287.00	
3	200	do	26 1/2		5,262.00	
3	200	United Gas	28 3/4		5,712.00	
3	200	Grand Rapids Varnish	22 3/4		4,417.00	
3	500	United Gas	27	13,575.00		2,658.25
3	800	do	27	21,730.00		
6		United Gas	29 1/2		14,467.50	
6	100	do	29 1/2		2,906.00	
6	100	do	29 3/4		2,918.50	
6	100	do	29 1/4		2,906.00	
6		Check		1,416.31		4,136.25
10		do		1,000.00		2,719.94
10		do		1,000.00		1,719.94
13		United Gas	28 7/8		2,868.50	
13	200	do	28 3/4		5,712.00	
13	200	Auto sales	35 1/2		7,062.00	9,900.44
19	200	do	35		6,962.00	
19	200	do	35 1/4		7,012.00	
19	400	Richfield oil	41 1/2		17,736.00	
19	100	do	44		4,384.00	
19	100	do	43 3/4		17,436.00	
19	400	do	43 3/4		8,743.00	
19	200	do	43 3/8			

19	600	United Gas	20	17,266.00	121,193.00
19	200	do	20 1/2	4,265.00	
19	100	do	42 1/2	4,240.00	
19	100	do	42	4,215.00	
19	100	do	33 1/2	3,365.00	
19	100	do	41 3/4	4,190.00	105,108.00
19	100	do	41 5/8	4,177.50	100,918.00
19	100	do	41 5/8	4,177.50	
19	200	Richfield Oil	43 3/8	719.94	
19					
20	100	Check	42 1/2	4,265.00	
20	100	Richfield Oil	42 1/2	4,240.00	
20	100	do	42	4,215.00	
20	100	do	33 1/2	3,365.00	
20	100	Auto Sales	41 3/4	4,190.00	
21	100	Richfield Oil	41 5/8	4,177.50	
21	100	do	41 5/8	4,177.50	
21	100	do	41 5/8	4,177.50	
21	100	Auto Sales	33 1/2	3,365.00	
21	100	do	33 1/2	3,340.00	
21	100	do	28	14,075.00	
21	500	United Gas	42	4,215.00	
21	100	do	42 1/2	4,227.50	
21	100	do	28 5/8	2,852.50	
21	100	do	42	12,645.00	
21	300	Richfield Oil	29 3/4	2,906.00	
21					
21	100	United Gas	105	10,471.00	
21	100	General Gas Electric A	104 7/8	10,458.50	
21	100	do	105	10,471.00	
21	100	do	105 1/4	10,496.00	
21	100	do	105 1/4	10,521.00	
21	100	do	105 7/8	10,558.50	
21	100	do	106	10,571.00	
21	100	do	106 1/4	10,596.00	
21	100	do	106 3/4	10,621.00	144,855.60
21					
22	100	Auto Sales	33 3/4	3,390.00	
22	100	do	34	3,415.00	
22	100	Richfield Oil	42 3/8	4,252.50	
22	100	General Gas Electric A	104 3/8	10,500.00	
22	100	Auto Sales	33 3/4	3,390.00	
22	100	do	104 1/4	10,450.00	
22	100	General Gas Electric A	104	10,425.00	
22	100	do	104 1/2	10,475.00	
22	100	do	27 3/4	5,580.00	
22	200	United Gas		5,580.00	
22	200	Check	27 1/2	5,530.50	
22	200	do	28	16,890.00	
22	600	General Gas Electric A	104	41,700.00	
23	400	do			
23	100	General Gas Electric A	105 1/2	10,521.00	
23	100	do	105 3/4	10,496.00	
23	100	do	105	10,471.00	
23	100	do	104 3/4	10,446.00	
23					
24	500	Check	103 3/4	1,523.00	54,811.60
24		General Gas Electric A		51,625.00	52,818.60
25			103		

*In account current with E. F. Hutton & Co.—Continued*

Date	Bought	Sold	Price	Debits	Credits	Balance
1929 Aug. 26		200 Richfield Oil	433 1/2		\$8,643.00	
26		100 do.	433 1/2		4,334.00	4,334.00
26		200 do.	435 1/2		8,683.00	\$22,803.50
27	100 Richfield Oil		429 1/4	\$1,240.00		
27		100 General Gas Electric A	105		10,471.00	
27		400 Richfield Oil	431 1/4		17,236.00	
27		100 General Gas Electric A	104 5/8		10,433.50	56,704.00
28	100 General Gas Electric A		103 1/2	10,375.00		
28	100 Richfield Oil		42	4,215.00		
28	200 do.		42	8,430.00		
28		100 General Gas Electric A	104 1/2		10,421.00	44,165.00
29	100 Richfield Oil		42 1/4	4,240.00		
29		100 General Gas Electric A	105 7/8		10,558.50	
29		100 do.	105 1/2		10,521.00	
29		100 do.	106		10,571.00	
29		100 do.	106 1/2		10,621.00	
29		100 do.	106		10,571.00	
29		100 do.	106 7/8		10,658.50	
29		100 do.	107 5/8		10,733.50	
29		50 do.	106 1/4		5,298.00	
29		50 do.	106 3/4		5,323.00	124,780.50
31		1,400 Richfield Oil				
31		1,000 General Gas Electric A			124,780.50	124,780.50
Sept. 31		Credit balance		4,227.50		
1			42	4,215.00		
4	100 Richfield Oil		107		21,342.00	
4	100 do.		42			
5	100 Richfield Oil		41 1/4	4,140.00		
5	100 do.		106 3/8		10,608.50	139,933.50
6	200 General Gas Electric A		104	20,850.00		
6	200 do.		103 3/4	20,800.00		
6	200 do.		103 1/2	20,750.00		
6	200 do.		103	20,650.00		
6	200 do.		102 3/4	20,600.00		
6	Check			2,177.00		
9		100 General Gas Electric A	101 1/4		10,446.00	
9	200 do.		105 1/2		21,042.00	
9	100 do.		105 1/2		10,496.00	
9	500 do.		105		52,355.00	
9	100 do.		104 7/8		10,458.50	
9	1,000 General Gas Electric A		104	104,250.00		
9	100 do.		103 1/2	10,375.00		
9	200 do.		2 104	20,850.00		

9	300	do	300	General Gas Electric A	2 104	31,275.00	31,413.00	3,567.00
9	10	Check	105			3,567.00		
Nov. 20	100	Fox Film A			59½	5,967.50		
20	200	do			62½	12,535.00		
20	100	do			62½	6,280.00		
20	100	do			59½	6,005.00		
20	20	Check			62½		31,205.00	
Dec. 5	300	Columbia Graphophone				417.50		0.00
5	5	do	31½			9,495.00		
5	200	Columbia Graphophone	32½			6,344.75	6,344.75	
6	200	do	31½			3,247.38		
9	250	City Stores	32¾			6,330.00		6,232.80
9	500	Fox Film A	13¾			2,906.25	6,519.75	286.90
9	200	do	11½			27,275.00	1,308.50	
9	200	do	54½					
9	100	City Stores	13				1,925.25	
10	200	Fox Film A	55¼				11,007.00	
11	200	do	55½				11,057.00	
11	100	do	56½				5,628.50	1,031.90
10	Check					1,000.00		31.90
11	100	Paramount Famous	53¾			5,392.50		
11	100	do	53½			5,405.00		266.40
11	250	City Stores	55½				11,032.00	
12	12	do	127½			3,250.00		
12	200	City Stores	127½				2,542.00	
12	100	do	13				2,567.00	
12	100	City Stores	13½			1,212.50	1,296.00	
13	100	do	11½			1,162.50		3,121.50
16	50	do	11½			587.50	2,208.90	
21	Check		11½			458.90		458.50
30	300	City Stores	10¾				2,117.00	0.00
30	200	do	10¾				2,092.00	
30	200	do	10¾				2,117.00	
31	600	City Stores	10			6,075.00		6,398.00
Dec. 31		Credit balance					251.00	251.00
1930								
Jan. 2	200	City Stores	10½			251.00	2,042.00	2,012.00
2	3	do	10½				1,008.50	3,050.50
3	100	City Stores	9¾			970.00		
8	200	do	9¾			1,905.00		115.50
9	Check		9¾			115.00		
10	1,000	United States Steel	107½			171,125.00		171,124.50

¹ Short.

² On call.

*In account current with E. F. Hulton & Co.—Continued*

Date	Bought	Sold	Price	Debits	Credits	Balance
1920						
Jan. 13		200 United States Steel.....	172 <sup>3</sup> / <sub>4</sub>		\$34,492.00	
13		200 do.....	172 <sup>1</sup> / <sub>2</sub>		34,442.00	
13		300 do.....	172 <sup>1</sup> / <sub>2</sub>		51,663.00	
13		300 do.....	172 <sup>1</sup> / <sub>2</sub>		51,663.00	
13		100 Paramount Famous.....	51 <sup>1</sup> / <sub>2</sub>		5,091.00	
13		Check.....		\$1,000.00		\$5,296.50
15		100 Paramount Famous.....	52 <sup>3</sup> / <sub>8</sub>		5,216.00	
15		200 do.....	52 <sup>3</sup> / <sub>8</sub>		10,432.00	
15		100 do.....	52 <sup>3</sup> / <sub>8</sub>		5,241.00	26,116.50
16		200 do.....	53 <sup>1</sup> / <sub>2</sub>		10,637.00	
16		100 do.....	53 <sup>1</sup> / <sub>2</sub>		5,366.00	42,158.50
20	100 Paramount Famous.....		52 <sup>1</sup> / <sub>4</sub>	5,242.50		
20	100 do.....		51 <sup>3</sup> / <sub>4</sub>	5,192.50		
20	200 do.....		52	10,435.00		
20		100 Paramount Famous.....	53 <sup>3</sup> / <sub>8</sub>		5,316.00	
20		Check.....		500.00		26,084.50
21		100 Paramount Famous.....	54 <sup>1</sup> / <sub>4</sub>		5,403.50	
21		200 do.....	54		10,757.00	42,245.00
22	1,300 Paramount Famous.....		52	67,827.50		
22	100 do.....		54 <sup>3</sup> / <sub>4</sub>		5,453.50	
22	100 do.....		54 <sup>7</sup> / <sub>8</sub>		5,466.00	
22	200 do.....		55 <sup>1</sup> / <sub>4</sub>		11,007.00	
22	100 do.....		55 <sup>1</sup> / <sub>2</sub>		5,528.50	
22	100 Raybestos Manhattan.....		37 <sup>1</sup> / <sub>2</sub>		3,768.50	
22	200 do.....		38 <sup>1</sup> / <sub>2</sub>		7,737.00	
22	100 do.....		37 <sup>3</sup> / <sub>8</sub>		3,868.50	
22		Check.....		400.00		
22	do.....			790.00		
22	Account D. M. Lion special account			682.50		15,374.00
24		500 Raybestos Manhattan.....	39 <sup>1</sup> / <sub>2</sub>		19,655.00	
24		200 Transue & Williams.....	25		4,962.00	39,391.00
27	1,000 Raybestos Manhattan.....		37 <sup>1</sup> / <sub>2</sub>	37,650.00		
27	200 do.....		25 <sup>3</sup> / <sub>8</sub>		5,087.00	
27	200 do.....		27		5,362.00	
27	200 do.....		26 <sup>1</sup> / <sub>2</sub>		5,292.00	18,062.00
27	200 do.....		26		5,162.00	
27	300 do.....		26 <sup>3</sup> / <sub>4</sub>		7,968.00	
27	100 American Seating.....		23		2,283.50	53,465.50
27	200 Transue & Williams.....		25 <sup>1</sup> / <sub>4</sub>	5,080.00		
28		200 Transue & Williams.....	26 <sup>1</sup> / <sub>2</sub>		5,262.00	53,647.50
29	100 do.....		25	2,515.00		
29	100 do.....		24 <sup>3</sup> / <sub>4</sub>	2,487.50		
29	100 American Seating.....		21 <sup>1</sup> / <sub>4</sub>	2,137.50		
29		100 Raybestos Manhattan.....	38 <sup>3</sup> / <sub>4</sub>		3,856.00	

29	Check, A. Cornell.....				1, 381.00			28,482.50
29	Check.....				500.00			
30	Transue & Williams.....							
30	500	100	Transue & Williams	24		2,581.00		
30		100	do.	26		2,606.00		
30		100	do.	26 3/4		2,636.00		
30		100	do.	27		2,781.00		
30		100	do.	27 1/2		2,706.00		
30		100	do.	28 3/8		2,718.50		
30		100	do.	27 1/2		2,531.00		
30		100	General American Tank Car	105 1/2		10,521.00		
30	Check.....				1,200.00			44,230.50
31		200	Transue & Williams	27 3/8		5,537.00		
31		100	do.	27 3/8		2,708.50		
31		200	Indian Motor Cycle	8		1,577.00		
31		100	do.	8 1/2		838.50		
31		100	do.	9		888.50		
31		100	do.	8 1/2		838.50		
31	Interest, 6 per cent.....				86.82			56,581.68
31		1,600	Transue & Williams					
31		100	General American Tank Car					
31		500	Indian Motor Cycle					
31			Credit balance		1,000.00	56,581.68		56,581.68
31	Check.....				12,312.50			
31	Transue & Williams				12,575.00			
31	500							
31	500							
31		100	Transue & Williams	24 1/2		2,806.00		
31		100	do.	25		2,481.00		
31		100	American Seating	23		2,283.50		
31		200	Budd Wheel	13		2,567.00		
31		100	do.	13 1/8		1,206.00		42,127.68
31		200	Budd Wheel	13		2,567.00		
31		200	do.	13 1/2		2,667.00		
31		100	do.	103 1/2		1,321.00		48,682.68
31	General American tank car				10,375.00			
31	Transue & Williams				5,230.00			
31		200	Budd Wheel	26		2,767.00		
31		200	Indian Motorcycle	14		1,777.00		
31	Check.....				1,200.00			
31	Indian Motorcycle				3,537.50			
31	500				11,145.00			21,739.18
31	300				2,137.50			
31	100					3,808.50		
31	American Seating					7,762.00		
31	Check.....				1,000.00			30,232.18
31	Eureka Vacuum				3,815.00			
31	100					3,931.00		
31	Eureka Vacuum					2,731.00		
31	Transue & Williams					901.00		53,980.18
31	100							
31	Indian Motorcycle							

1 Short.

## In account current with E. F. Hutton &amp; Co.—Continued

Date	Bought	Sold	Price	Debits	Credits	Balance
1930						
Feb. 7		100 General American tank car.	105½		\$10,833.50	
7		100 do.	103¾		10,808.50	
7		100 Associated Apparel, Ind.	45½		4,243.50	\$59,865.68
10	100 Transue & Williams.		26	\$2,615.00		
10	100 Budd Wheel.		25¾	2,590.00		
10	1,000 Indian Motorcycle.		12¼	12,375.00		
10	Interest, 5¼ per cent.		8	2,422.50		
11	400 Transue & Williams.		1.78	10,460.00		89,861.40
11	100 do.		26	2,590.00		
11	100 Check.		25¾	430.00		
13					10,658.50	96,381.40
13	100 Associated Apparel, Ind.	100 General American tank car.	54¾		5,453.50	12,469.40
14	100 General American tank car.	100 Newton Steel.	41½	4,165.00		38,328.40
17	250 Newton Steel.		105½	10,537.50		
17			53	13,293.75		
17		100 Newton Steel.	55¾		5,553.50	
17		100 do.	56¼		5,603.50	
17		100 do.	55¾		5,503.50	31,157.65
18	150 Newton Steel.		54	8,126.25		23,031.40
19		100 General American Tank Car.	105½		10,633.50	
19		100 do.	105½		10,638.50	44,329.40
20	200 Check.			1,000.00		13,329.40
21	200 General American Tank Car.		105	21,050.00		
21	100 do.		104¼	10,450.00		
21	100 do.		104½	10,475.00		
21	200 Check.			500.00		
21	do.			848.40		848.40
25						0.00
Mar. 4	250 Eureka Vacuum.		40	10,037.50		
4	250 do.		41	10,287.50		
4		200 Eureka Vacuum.	41¾		8,337.00	
4		300 do.	42		12,543.00	
4		100 Reynolds Tobacco B.	55¾		5,557.10	
4		200 do.	55¾		11,139.20	
4		100 do.	56¼		5,607.10	
4				555.00		22,508.40
5		100 Eureka Vacuum.	43½		4,331.00	26,634.40
6			41½			22,469.40
10	100 Budd Manufacturing.		12	4,165.00		21,896.40
11	100 Reynolds Tobacco B.		56¾		2,367.00	
11	200 do.		57½		5,619.60	
12	300 do.		57¾		11,464.20	41,930.20
12	200 do.		58¾		17,308.80	
12					11,639.20	



12	200	Rudd Manufacturing	200	do.	58 1/2	2,225.00	11,664.20	82,632.40
14		Check			11	1,200.00		79,107.40
17	1,000	Reynolds Tobacco B.			55 1/2	55,675.00		23,432.40
18	1,250	do.			55 1/2	69,593.75		
18			100	Reynolds Tobacco B.	57		5,682.10	
18			200	do.	57		11,364.20	
18			100	do.	57 1/2		5,694.60	
18			100	do.	57 1/2		5,707.10	
18			50	do.	56 7/8		2,834.80	
18			100	do.	57 1/8		5,694.60	
18			100	General American Tank Car	105 3/4		10,546.00	
18			100	do.	105 3/8		10,558.50	
18			200	Reynolds Tobacco B.	57	95.00	11,364.20	23,284.75
18		Check				2,085.25		21,104.50
18		do.	100	General American Tank Car	100 3/4		10,608.50	
19			100	do.	100 3/8		10,633.50	
19			100	do.	107		10,671.00	
19			100	do.	107 1/8		10,721.00	63,738.50
24	100	General American Tank Car			105	10,525.00		
24	100	do.			104 3/4	10,500.00		42,718.50
25	100	do.			104 3/8	10,462.50		
25	100	do.			104 1/4	10,450.00		
25	100	General Theater Equipment	100	General Theater Equipment	45 1/2	4,465.00	4,531.00	26,352.00
26			100	do.	44 1/2		10,596.00	
26	100	General American Tank Car	100	General American Tank Car	100 3/4		10,646.00	43,109.00
27	100	do.	100	do.	105	10,525.00		32,584.00
28	100	Interest, 6 per cent.			105	10,525.00		22,039.00
29		Check				1,033.66		21,035.00
31	100	General American Tank Car			105	10,525.00		
31	100	do.			104 3/4	10,500.00		0.00
Apr. 7	100	Dunhill	100	Dunhill	41 1/2	4,165.00	4,281.00	116.00
7		Check			43	116.00		0.00
May 14			100	Dunhill	393 1/4	3,565.00	3,656.00	3,656.00
16	100	Dunhill	100	Dunhill	351 1/2	91.00		91.00
27		Check						0.00
June 13	50	Worthington Pump			130 1/4	6,825.00	6,873.00	48.00
13		Check	50	Worthington Pump	137 3/4			0.00
23			100	International Salt	44 1/8	48.00	1,393.50	4,393.50
25		Account 3% premium on 100 International Salt value, June 26				37.50		4,366.00
26		Premium, 100 International Salt, 3%				37.50		4,318.50
28		International Salt				4,313.00		3.50
30	100				43			

## In account current with E. F. Hutton &amp; Co.—Continued

Date	Bought	Sold	Price	Debits	Credits	Balance
1930						
June 30	300	Credit Balance	15 1/4	\$4,575.00	\$3.50	\$3.50
July 23	200	Brockway Motors	15 3/8	3,100.00		7,671.50
24		do	15 1/2		7,007.50	
24		General Foods	55 3/8		5,516.00	
24	100	do	55 3/8		5,516.00	
24	100	do	55 1/2		5,528.50	
24	100	do	55 1/2		5,528.50	
24	100	Phillips Petroleum	33 3/8		3,343.50	
24	100	do	33 3/4		3,336.00	28,784.50
25	100	General Foods	3 55 1/4		5,571.00	37,111.50
25	100	Commercial Solvents	27 3/4		2,756.00	36,729.00
26				382.50		
26	100	Check	32 1/2	3,265.00		
28	100	Phillips Petroleum	32 3/8	3,277.50	5,637.00	
28		do	28 3/8		2,781.00	
28		Commercial Solvents	28 3/8		2,806.00	
28	100	do	28 3/4			
28	300	General Foods	54 1/2	16,402.50		25,008.00
29		Phillips Petroleum	33 3/8		3,368.50	
29	100	do	33 3/4		3,356.00	
29	100	do	33 3/8		3,343.50	
29	100	do	33 3/8		3,318.50	
29	100	General Foods	55 1/4		5,553.50	
29	100	do	55 1/2		5,528.50	
29	100	do	55 1/2		5,506.00	55,042.50
30	100	Commercial Solvents	26 3/8	2,677.50		
30	100	do	26 1/4	2,690.00		
30		Commercial Solvents	27 1/2		5,462.00	55,157.00
31	200	General Foods	51 1/4	10,885.00		
31	200	do	54 1/4		10,885.00	
31	100	Phillips Petroleum	32 3/4	3,265.00		
31	400	do	32 3/8	13,110.00		
31	100	General Foods	54 1/2	5,492.50		
31	200	Commercial Solvents	26 1/2	5,330.00		
31	100	do	26 1/4	2,690.00		
31	100	do	26 1/8	2,627.50		
31	100	do	26 1/4	2,640.00		
31		Phillips Petroleum	33 3/4		3,356.00	
31				80		
31				1,567.20		0.00
Aug. 21		General foods	55 1/4		5,503.50	5,503.50
26	100	New York Dock	37 1/2	3,765.00		
26	100	do	37 3/4	3,740.00		

26			100	General Foods	3 55 1/2	5,546.00	3,544.50
27			100	do	3 56 7/8	5,683.50	14,844.00
27			100	do	56 3/8	5,616.00	
28			500	General Foods	55	27,587.50	
28			100	General Foods	57 3/4	5,753.50	
28			100	do	57 1/4	5,703.50	
28				Check		447.50	1,734.00
31				Interest 3 3/4 per cent.		.55	1,734.55
31			1 100	General Foods			
31			31	New York Dock			
Sept. 2			100	Balance		1,734.55	1,734.55
3			100	Mon Santo Chemical	46 3/4	4,656.00	2,921.45
4			100	New York Dock	37 5/8	3,743.50	
4			100	do	37 3/8	3,718.50	10,363.45
6				To adjust Aug. 31 interest account New York Dock		3.60	10,379.85
9			300	Thermoid	12 1/4	3,712.50	
9			100	do	12 1/2	1,333.50	
9			100	do	13 3/4	1,358.50	
9			100	do	14	1,383.50	10,742.85
10				Interest 3 3/4 per cent to Sept. 4 account New York Dock		3.12	
10				Check			
12				Short dividend notice ex Sept. 10 account 100 Mon Santo Chemical at 3 1/4 cents and 1 1/2 per cent stock dividend payable Oct. 1.		380.23	10,359.50
15			100	Mon Santo Chemical	44 3/8	4,452.50	
15			100	General Foods	3 57	5,700.00	
15			1/2	Mon Santo Chemical	45	22.50	
15			1	do	44 3/8	47.13	137.37
17				Check		106.12	31.55
Oct. 1				1 100/200 Mon Santo Chemical account stock dividend on 100 Mon Santo Chemical transfer.			
						31.25	0.00
1				Dividend 100 Mon Santo Chemical			
13			200	Check			
13			100	Paramount-Famous	50 7/8	700.00	700.00
14			100	do	51	10,132.00	
14			100	do	51 1/8	5,078.50	
14			100	do	51 1/4	5,091.00	
14			500	Paramount-Famous	52	5,103.50	26,105.00
22						26,087.50	
22				D. M. Lion, regular account		682.50	
23				Check		250.00	950.00
						950.00	0.00
Feb. 25			100	Container A			
25			100	do	21	2,112.50	
25					22 3/8	2,224.20	
25					21 3/4	2,161.70	
26			100	Container A	20 1/2	2,062.50	

1 Long.

3 Net.

1 Short.

*In account current with E. F. Hutton & Co.—Continued*

Date	Bought	Sold	Price	Debits	Credits	Balance
1931 Feb. 28	100 Transue & Williams	100 Transue & Williams	24 1/4 25 1/4	\$2,437.50	\$2,506.00	\$279.40
Mar. 7		Credit balance			279.40	279.40
10	100 Budd Manufactures	Budd Manufactures	13 1/4 12 1/4	1,237.50	1,308.50	1,587.90
12	Check			350.40		350.40
Apr. 29	200 United Corporation	United Corporation	50	10,035.00		
29		do	51 7/8 51 7/8		5,166.00 5,141.00	272.00 0.00
30	Check			272.00		
May 1	100 International Telephone & Telegraph	International Telephone & Telegraph	73 3/4 75 1/4	7,392.50	7,501.00	108.50
6	100 Radio	Radio	41 3/4 44	4,190.00	4,381.00	
6	Check			299.50		0.00

Mr. GRAY. Now this is your account with Louchheim, Minton & Co., is it not? [Presenting papers to the witness.]

Mr. LION. Yes, sir.

Mr. GRAY. Are they all trades, or is there any exercise of calls in there?

Mr. LION. Those were all options and calls.

Mr. GRAY. In other words, all for publicity work. I will put that into the record.

The CHAIRMAN. Without objection, it is so ordered.

(The statement of D. M. Lion, in account current with Louchheim, Minton & Co., so ordered printed in the record, is as follows:)

## D. M. Lion short account, in account current with Louchheim, Minton &amp; Co.

Debit		Credit	
Date	Amount	Date	Amount
1928		1928	
Nov. 12	Call 5,000 Cons. Rep. of Cuba, 6 per cent preferred, at 76; expires Nov. 30.....	Nov. 12	300 Kolster Radio, 86 <sup>3</sup> / <sub>4</sub> .....
9	Call 5,000 Kolster, at 84; expires Dec. 1.....	12	500 Kolster Radio, 86 <sup>1</sup> / <sub>2</sub> .....
9	Call 5,000 Kolster, at 85; expires Dec. 1.....	12	200 Kolster Radio, 87.....
14	100 Kolster Radio, 83 <sup>1</sup> / <sub>2</sub> .....	13	500 Kolster Radio, 86 <sup>1</sup> / <sub>2</sub> .....
14	1,800 Kolster Radio, 84.....	15	500 Kolster Radio, 85 <sup>1</sup> / <sub>2</sub> .....
14	100 Kolster Radio, 84.....	15	500 Kolster Radio, 85 <sup>3</sup> / <sub>4</sub> .....
13	Interest, 7 per cent.....	15	1,000 Kolster Radio, 89.....
13	Check.....	15	1,000 Kolster Radio, 89.....
20	5,000 Kolster Radio, 84 account call.....	15	400 Kolster Radio, 89.....
20	5,000 Kolster Radio, 85 account call.....	15	500 Kolster Radio, 85 <sup>1</sup> / <sub>2</sub> .....
19	Interest, 7 per cent.....	15	500 Kolster Radio, 85 <sup>3</sup> / <sub>4</sub> .....
19	Check.....	16	1,000 Kolster Radio, 88 <sup>3</sup> / <sub>4</sub> .....
22	Call 5,000 Sinclair, at 44; expires Dec. 23.....	16	300 Kolster Radio, 87 <sup>1</sup> / <sub>2</sub> .....
		16	300 Kolster Radio, 87 <sup>3</sup> / <sub>8</sub> .....
		16	300 Kolster Radio, 87 <sup>5</sup> / <sub>8</sub> .....
		16	500 Kolster Radio, 87 <sup>3</sup> / <sub>4</sub> .....
		19	500 Kolster Radio, 89.....
		19	500 Kolster Radio, 88 <sup>1</sup> / <sub>2</sub> .....
		19	500 Kolster Radio, 89 <sup>1</sup> / <sub>2</sub> .....
		19	500 Kolster Radio, 90 <sup>1</sup> / <sub>8</sub> .....
		19	500 Kolster Radio, 88 <sup>1</sup> / <sub>2</sub> .....
		19	1,000 Kolster Radio, 88 <sup>3</sup> / <sub>2</sub> .....
		30	Call 5,000 Cons. Rep. of Cuba, 6 per cent preferred, at 76; expires Nov. 30.....
			1,041,770.00
Dec. 30	Call 5,000 Sinclair, at 44; expired December 23.....	Dec. 3	2,000 Sinclair, at 45 <sup>3</sup> / <sub>4</sub> .....
4	1,400 Sinclair, at 44.....	10	Call 5,000 Sinclair, at 44.....
4	600 Sinclair, at 44.....	21	1,000 Sinclair, at 41 <sup>3</sup> / <sub>4</sub> .....
3	Interest, 7 <sup>3</sup> / <sub>4</sub> per cent.....	21	1,500 Sinclair, at 41 <sup>3</sup> / <sub>4</sub> .....
3	Check.....	21	800 Sinclair, at 41 <sup>1</sup> / <sub>2</sub> .....
21	3,000 Sinclair, at 40.....	24	1,000 Sinclair, at 41 <sup>3</sup> / <sub>4</sub> .....
21	2,400 Sinclair, at 40.....	24	1,000 Sinclair, at 41 <sup>3</sup> / <sub>8</sub> .....
21	Check.....	24	400 Sinclair, at 42.....
24	2,700 Sinclair, at 40.....	24	900 Sinclair, at 41 <sup>3</sup> / <sub>4</sub> .....
26	Check.....	24	1,000 Sinclair, at 41 <sup>3</sup> / <sub>4</sub> .....
21	2,000 Genl. Amer. Tank, at 89.....	24	100 Sinclair, at 41 <sup>3</sup> / <sub>4</sub> .....
21	Interest, 9 per cent.....	24	100 Sinclair, at 41 <sup>5</sup> / <sub>8</sub> .....
28	Check.....	24	600 Sinclair, at 41 <sup>1</sup> / <sub>2</sub> .....
			91,120.00
			41,560.00
			49,872.00
			33,048.00
			41,560.00
			41,685.00
			16,724.00
			37,404.00
			41,560.00
			4,156.00
			4,143.50
			24,786.00







Mr. GRAY. Now I have prepared a list here and I want to ask you if this was a correct list of the brokerage houses, members of the New York Stock Exchange, that gave you such calls as you have indicated. If any of them whose names I read is incorrect, interrupt me and let me know.

H. L. Goldberg?

Mr. LION. They are not members of the stock exchange.

Mr. GRAY. They are not members of the stock exchange?

Mr. LION. No, sir. They are on the curb exchange.

Mr. GRAY. They are members of the curb exchange?

Mr. LION. Yes, sir.

Mr. GRAY. The next one is Hayden, Stone & Co.

Mr. LION. Yes, sir.

Mr. GRAY. Prince & Whitley.

Mr. LION. Yes, sir.

Mr. GRAY. Eastman, Dillon & Co.

Mr. LYON. I never had an option from Eastman, Dillon & Co.

Mr. GRAY. Was it not Eastman, Dillon & Co. that you got the Bush Terminal from?

Mr. LION. No, sir; I told you I got that from some other house, a small option.

Mr. GRAY. All right. Hirsch, Lillenthal & Co.

Mr. LION. I had a call from them on one; yes.

Mr. GRAY. Beere & Co.

Mr. LION. Yes, sir.

Mr. GRAY. Leo Spergan.

Mr. LION. I had a call from them. I don't remember. I had a call, I would say; yes.

Mr. GRAY. From Spergan & Co.?

Mr. LION. Yes.

Mr. GRAY. Ira Haupt & Co.?

Mr. LION. Yes.

Mr. GRAY. M. J. Meehan & Co.?

Mr. LION. Now, let me tell you about Meehan & Co.

Mr. GRAY. Go ahead.

Mr. LION. I had 75,000 shares of Fox Theaters—

Senator FLETCHER (interposing). A little louder.

Mr. GRAY. He had 75,000 shares of Fox Theaters.

Mr. LION. That was given to Mr. Sedg Levy, with Ellsworth.

Mr. GRAY. That is, Ellsworth?

Mr. LION. Yes, sir.

Mr. GRAY. He was a trader?

Mr. LION. I think he was a member of the firm of Meehan & Co.

Mr. GRAY. M. J. Meehan & Co.?

Mr. LION. Yes, sir.

Mr. GRAY. And he gave you this call?

Mr. LION. He gave it to Mr. Levy.

Mr. GRAY. To Mr. Levy?

Mr. LION. Yes; and Mr. Levy gave me half of the call.

Mr. GRAY. Did you ever exercise it?

Mr. LION. No; I never had an opportunity. The stock kept breaking; it broke from 73 down to \$5.

Mr. GRAY. In other words, before you could exercise your call, which was, of course, at a certain price, the stock broke so that you could not make any profit and you never exercised it?

Mr. LION. No, sir.

Mr. GRAY. Is that correct?

Mr. LION. That is correct.

The CHAIRMAN. But had no loss, of course?

Mr. LION. No, sir.

Mr. GRAY. Going on with these firms: Zukor & Co.

Mr. LION. As I recall, I had a call from Paramount.

Mr. GRAY. Or Zukor & Co.?

Mr. LION. From Mr. Richardson.

Mr. GRAY. Of that firm?

Mr. LION. Yes, sir.

Mr. GRAY. E. F. Hutton & Co. you have mentioned.

Mr. LION. Yes, sir.

Mr. GRAY. Hansel & Co.

Mr. LION. Yes; I had a call from them.

Mr. GRAY. Eshbaugh & Co.

Mr. LION. Eshbaugh & Co.?

Mr. GRAY. Yes.

Mr. LION. I think I had International Salt from them.

Mr. GRAY. Goddard & Co.

Mr. LION. I had International Safety Razor from Goddard & Co.

Mr. GRAY. A. J. Frankel & Co.

Mr. LION. Yes, sir.

Mr. GRAY. Richards & Co.

Mr. LION. Yes, sir.

Mr. GRAY. Prentice & Slepach you have already admitted.

Mr. LION. Yes, sir.

Mr. GRAY. Cohen. Simonson & Co.

Mr. LION. I don't remember what I had out of there.

Mr. GRAY. In other words, you were generally known, for the last two or three years, on the Street in New York, as the man who could furnish publicity, and was the man who furnished publicity for either cash or call; that is true, isn't it?

Mr. LION. Yes, sir.

Mr. GRAY. I think that covers the subject. Mr. Lion, you will understand, of course, that you are still under subpœna, but you will not be required to stay here, and not required to come here unless we notify you.

Mr. LION. I am glad of that, Mr. Gray.

Mr. GRAY. We will excuse you. I know it has not been very pleasant for you.

(The witness was excused.)

Mr. GRAY. Mr. John J. Raskob.

#### TESTIMONY OF JOHN J. RASKOB, DIRECTOR, GENERAL MOTORS CORPORATION, CENTERVILLE, MD.

The CHAIRMAN. Raise your hand and be sworn. You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter now under investigation by the committee. So help you God.

Mr. RASKOB. I do.

Mr. GRAY. Mr. Raskob, where do you reside, please?

Mr. RASKOB. Centerville, Md.

Mr. GRAY. And your full name is what?

Mr. RASKOB. John J. Raskob.

Mr. GRAY. What is your business?

Mr. RASKOB. Trying to make good Democrats out of a lot of misguided Republicans, I guess.

Mr. GRAY. I see.

Mr. RASKOB. I am chairman of the Democratic National Committee.

Mr. GRAY. I will not ask you how successful or unsuccessful you have been. You were associated with the General Motors Corporation, were you not?

Mr. RASKOB. Yes, sir.

Mr. GRAY. You have been associated, or became associated with the General Motors Corporation, Mr. Raskob, when, please?

Mr. RASKOB. Oh, I guess 15 years ago.

Mr. GRAY. About 15 years ago?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Well, say, about 1917?

Mr. RASKOB. I should think so.

Mr. GRAY. Did you become an officer of General Motors Corporation?

Mr. RASKOB. Yes, sir.

Mr. GRAY. And when did you become an officer, and what position did you occupy?

Mr. RASKOB. I do not remember the dates I became an officer; but for years I was chairman of the finance committee and a vice president, and active in the General Motors Corporation, and devoted my whole time to it.

Mr. GRAY. Try to keep your voice up. It is difficult to hear in here. Are you now vice president of General Motors Corporation?

Mr. RASKOB. No, sir.

Mr. GRAY. When did you cease to be vice president?

Mr. RASKOB. I resigned all association with General Motors Corporation in 1928, when I became chairman of the Democratic National Committee, excepting I am still a director of General Motors Corporation.

Mr. GRAY. In other words, you gave up your position as chairman of the finance committee and your position as vice president, did you, but continued to be and still are a director of General Motors Corporation?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Is that correct?

Mr. RASKOB. Yes, sir.

Mr. GRAY. The time you severed those other relations was about July, 1928?

Mr. RASKOB. Yes, sir.

Senator GLASS. Mr. Gray, before you proceed further with the examination of Mr. Raskob, I want to ask you a question.

Mr. GRAY. Yes, sir.

Senator GLASS. Is there any other official or director of General Motors Co. who has the information that you propose to elicit from Mr. Raskob, who has been subpoenaed?

Mr. GRAY. No, sir; because the information I want to elicit from Mr. Raskob is in relation to his own personal matters, and no other official has that information.

Senator GLASS. Is there any other official of General Motors Co. from whom kindred information can be secured that you have subpoenaed?

Mr. GRAY. Not that I have subpoenaed. There are some other accounts that I have investigated.

Senator GLASS. I ask that question because it has been whispered for weeks around the Capitol that this investigation was initiated with the expectation of involving several prominent Democrats, and I want to elicit information from you as to whether you equally want to involve several prominent Republicans.

The CHAIRMAN. If there are any involved, bring them in and we will name them.

Senator GLASS. It is for him to bring them in.

Mr. GRAY. I want to say to you, Senator, that the political end of this investigation, if there is any, has not concerned me in the slightest. I have gone along and endeavored to elicit before the committee the practices that I think are either illegal or improper and that should be corrected.

Senator GLASS. The facts will speak for themselves.

Mr. GRAY. Certainly. I have talked to individuals without regard to what their political complexion may be. I have not the slightest interest in it. Of course, if I am instructed to proceed no further because Mr. Raskob is chairman of the Democratic National Committee, I will not proceed.

Senator GLASS. Oh, proceed. I am just wondering why you found him of the Democratic political complexion.

Mr. GRAY. I have not inquired of any of them as to what their political affiliation is.

Senator GLASS. We are just fencing now. Go ahead.

Mr. GRAY. Mr. Raskob, are you a stockholder in General Motors?

Mr. RASKOB. Yes, sir.

Mr. GRAY. And at the time that you resigned your position as vice president and chairman of the finance committee, can you tell me what the extent of your stockholdings was?

Mr. RASKOB. Well, Mr. Gray, as a result of our talk in New York I have prepared a statement, as you requested, showing, first, my holdings in common stock from January 1, 1928, to December 31, 1931.

Mr. GRAY. Suppose, before you proceed with the figures, Mr. Raskob—

Mr. RASKOB (interposing). I think if I may continue, if agreeable to the chairman—

Mr. GRAY (interposing). I have not the slightest objection to your stating it in your own way.

Mr. RASKOB. No; but I was going to say that if I pass a copy of this statement around to the committee, they will better understand my statement.

Mr. GRAY. Is that the thing you passed to me?

Senator BULKLEY. Do you want this statement in the record, too, Mr. Raskob?

Mr. RASKOB. If that is agreeable, I would like to have it.

Senator BULKLEY. I ask that this go into the record. Now, do I understand that this statement is in the record?

Mr. GRAY. Senator Bulkley is asking to put the statement which he has handed to every member of the committee, and also to myself, in the record.

The CHAIRMAN. Have you had a chance to see it?

Mr. GRAY. I have, all but the last few figures. It is a matter for the committee, but I have no objection, as counsel, and think it should be put in the record.

The CHAIRMAN. There being no objections, it will go into the record. [After a pause.] It is so ordered.

(The statement produced by Mr. Raskob, and ordered to be printed in the record, is as follows:)

*General Motors Corporation common stock*

REGULAR ACCOUNT OF J. J. RASKOB

	Shares
1928:	
Jan. 1, on hand.....	76,596
January and February, no transactions.	
March—	Shares
Purchased.....	20,000
Sold .....	20,000
Balance .....	0
Donated .....	3,000
	<hr/> 73,596
April to December, no transactions.	
Dec. 31, balance.....	73,596
	<hr/> <hr/>
1929:	
Jan. 1, on hand.....	73,596
Converted on 2½-to-1 basis into.....	<sup>1</sup> 183,990
January, received from Allen Trust.....	210
Balance .....	184,200
February, received from General Motors savings fund.....	27
	<hr/> 184,227
March to August, no transactions.	
September, sold.....	3,362
Balance .....	180,865
October, no transactions.	
November—	
Purchased.....	50,000
Sold .....	50,000
Balance .....	0
December, delivered to special account.....	174,365
Dec. 31, balance.....	6,500
	<hr/> <hr/>

<sup>1</sup> New shares.

	Shares
1930:	
Jan. 1, on hand.....	6,500
January, no transactions.	
February, received from General Motors savings fund.....	24
	<hr/> 6,524
Sold.....	6,500
	<hr/>
Balance.....	24
March, no transactions.	
April, sold.....	24
	<hr/>
Balance.....	0
May to August, no transactions.	
September, purchased from Regent Corporation (a personal company).....	54,950
October, transferred to special account.....	10,000
	<hr/>
Balance.....	44,950
November and December, no transactions.	
Dec. 31, balance.....	44,950
	<hr/>
1931:	
Jan. 1, balance.....	44,950
January, transferred to special account.....	22,400
	<hr/>
Balance.....	22,550
February—	
Purchased.....	10,000
Received from General Motors savings fund.....	17
	<hr/>
Balance.....	32,567
March to August, no transactions.	
September, sold.....	2,567
	<hr/>
Balance.....	30,000
October, sold.....	10,000
	<hr/>
Balance.....	20,000
November and December, no transactions.	
Dec. 31, balance.....	20,000

## SPECIAL ACCOUNT OF J. J. RASKOB

	Shares
1928:	
Jan. 1, 1928, shares sold in 1927 not yet transferred from regular account.....	58,800
January, sold.....	20,000
	<hr/>
Balance.....	78,800
February, no transactions.	
March, purchased.....	78,800
	<hr/>
Balance.....	0
Sold.....	40,000
April to June, no transactions.	
July, sold.....	20,000
	<hr/>
	60,000
August, no transactions.	
September, sold.....	12,346
	<hr/>
	72,346
October to December, no transactions.	
Dec. 31, 1928, balance.....	72,346

	Shares
1929 :	
Jan. 1, 1929, balance-----	72, 346
Converted into new stock on basis $2\frac{1}{2}$ to 1-----	<sup>1</sup> 180, 865
January to October, no transactions.	
November, purchased-----	6, 500
Balance-----	174, 365
December, shares transferred from regular account-----	174, 365
Dec. 31, 1929, balance-----	0
1930 :	
January 1, balance-----	0
January to July, no transactions.	
August, sold-----	10, 000
September, no transactions.	
October, transferred from regular account-----	10, 000
Balance-----	0
November, no transactions.	
December, sold-----	22, 400
1931 :	
January 1, balance-----	22, 400
January, transferred from regular account-----	22, 400
Balance-----	0
February to December, no transactions.	
Dec. 31, 1931, balance-----	0

*General Motors Corporation common stock—Consolidated accounts of J. J. Raskob*

	1928	Shares
Jan. 1, on hand-----		17, 796
January, sold-----		20, 000
Difference-----		2, 204
February, no transaction-----		2, 204
March :		
Bought-----	98, 800	
Sold-----	60, 000	
Balance-----	38, 800	
Less gift-----	3, 000	
		35, 800
Balance-----		33, 596
April and June, no transaction-----		33, 596
July, sold-----		20, 000
Balance-----		13, 596
August, no transaction—balance-----		13, 596
September, sold-----		12, 346
Balance-----		1, 250
October to December, no transaction-----		1, 250
Balance, December 31-----		1, 250

<sup>1</sup> New shares.

1929		Shares
Jan. 1, on hand	-----	1, 250
Changed to new stock at ratio of 2½ to 1	-----	3, 125
January, received	-----	210
Balance	-----	3, 335
February, savings fund	-----	27
Balance	-----	3, 362
March to August, no transactions	-----	3, 362
September, sold	-----	3, 362
Balance	-----	0
October, no transaction.		
November:		
Bought	-----	56, 500
Sold	-----	50, 000
		6, 500
December, no transaction—balance	-----	6, 500
Balance, December 31	-----	6, 500

## 1930

Jan. 1, 1930, on hand	-----	6, 500
January, no transaction—balance	-----	6, 500
February, received from savings fund	-----	24
Balance	-----	6, 524
February, sold	-----	6, 500
Balance	-----	24
March, no transaction—balance	-----	24
April, sold	-----	24
Balance	-----	0
May to July, no transactions.		
August, sold	-----	10, 000
September, purchased from Regent Corporation (a personal company)	-----	54, 950
Balance	-----	44, 950
October and November, no transaction—balance	-----	44, 950
December, sold	-----	22, 400
Balance, Dec. 31, 1930	-----	22, 550

## 1931

Jan. 1, 1932, on hand	-----	22, 550
January and February, no transaction—balance	-----	22, 550
March, bought	-----	10, 000
Received from saving fund	-----	17
Balance	-----	32, 567



	Shares
April to August, no transaction-----	32,567
September, sold-----	2,567
Balance-----	30,000
October, sold-----	10,000
Balance-----	20,000
November and December, no transaction-----	0
Balance Dec. 31, 1931-----	20,000

Mr. GRAY. Now, Mr. Raskob——

Mr. RASKOB (interposing). In answer to your question, Mr. Gray, according to statement No. 3, which is a consolidated statement and shows my net position, I had 33,596 shares of General Motors common stock at the end of June, 1928. Was that the question you asked me?

Mr. GRAY. Yes; that is the question I asked you. Let me ask you a general question first: With what firm of brokers were your transactions in General Motors conducted?

Mr. RASKOB. Through Dyer, Hudson & Co.

Mr. GRAY. Were they the only firm?

Mr. RASKOB. Why, if I had any other transactions, they were very scattered; there may have been some through M. J. Meehan & Co., but I don't know.

Mr. GRAY. And in Dyer, Hudson & Co.'s house you had an account John J. Raskob; that is correct, isn't it?

Mr. RASKOB. Well, I had——

Mr. GRAY (interposing). That is correct? I mean, that is one account you had there?

Mr. RASKOB. Yes, sir.

Mr. GRAY. And then you had a second account, did you not, which was known as John J. Raskob, special account?

Mr. RASKOB. Special; yes, sir.

Mr. GRAY. And the first account was what one would designate as a long account; is that not so?

Mr. RASKOB. I would like—I do not want any confusion now when we start using the terms "long" and "short" in this investigation.

Mr. GRAY. Yes.

Mr. RASKOB. Statement No. 1 which I have handed you and to the members of the committee shows my regular account.

Mr. GRAY. Yes.

Mr. RASKOB. Statement No. 2 is the special account.

Mr. GRAY. Yes.

Mr. RASKOB. And statement No. 3 is a consolidation of the two. My accountants, for purposes of convenience, and particularly for purposes of better defining what particular shares were sold, by certificate numbers, advised that when I sold stock it would be better to sell it through a special account.

Mr. GRAY. Yes.

Mr. RASKOB. Now, this statement No. 2, which is the special account, shows that on January 1, 1928, that account showed sale of 58,800 shares of General Motors common stock which had not yet been transferred to that account from my regular account.

Statement No. 3, which is my consolidated account, shows that I was long, as you call it, 17,796 shares of stock. And at no time, going through all of these accounts, will you find that I have ever been short of General Motors, except in two technical cases, February, 1928, when I happened to be 2,204 shares short; and apparently, in August, 1930, I sold 10,000 shares and did not deliver them until about six weeks later. Six weeks later that stock was delivered out of stock which I owned, out of the Regent Corporation, which is a personal holding company. There is no time during that period that I have not held directly, or else through my holding company, or the Management Securities Corporation, at least 100,000 shares of General Motors.

Mr. GRAY. I will come to those details later. Had you any General Motors stock anywhere in any brokerage house, or in any other brokerage house than Dyer, Hudson & Co.?

Mr. RASKOB. I say, there may have been some in M. J. Meehan & Co. I don't know.

Mr. GRAY. Does it enter into this account if you have any?

Mr. RASKOB. Yes, sir.

Mr. GRAY. I mean, any that you may have had elsewhere?

Mr. RASKOB. Yes, sir.

Mr. GRAY. In other words, this account shows all your General Motors stock, whether it is lodged with Dyer, Hudson & Co., or with any other brokers, or whether you had it in your own box.

Mr. RASKOB. Yes, sir.

Mr. GRAY. Gives everything?

Mr. RASKOB. Yes, sir.

Senator BULKLEY. Does it cover the Regent Corporation, too?

Mr. RASKOB. No.

Mr. GRAY. I think, Senator, we have gone over this together, and we understand it.

Mr. RASKOB. The Regent Corporation was never short of any stock, or purchased any, except the stock it held and transferred to me, as in one case shown here.

Mr. GRAY. Now, we have talked about the account that you have given us as Statement No. 1, and the account you put in as Statement No. 2. There was an account known as the Archmere Corporation. Is that your account?

Mr. RASKOB. Archmere is an account that Mrs. Raskob owns.

Mr. GRAY. Then your statement is that it was Mrs. Raskob's account?

Mr. RASKOB. No; it is the Archmere account.

Mr. GRAY. You mean, it is an estate account?

Mr. RASKOB. Yes; it is a company that she owns entirely.

Mr. GRAY. Well, this is a company that she owns and owns entirely?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Therefore, was I not right in saying that it is Mrs. Raskob's account?

Mr. RASKOB. The record is straight on it.

Mr. GRAY. And there is an account of H. S. Raskob.

Mr. RASKOB. That is Mrs. Raskob's account.

Mr. GRAY. There is a small account, which I am really only referring to for the purpose of getting our figures correct, which appears in Dyer, Hudson & Co., under the name of Nellie Raskob.

Mr. RASKOB. What!

Mr. GRAY. Nellie K. Raskob. Is that your account?

Mr. RASKOB. I don't know what that is at all.

Mr. GRAY. You don't know?

Mr. RASKOB. No.

Mr. GRAY. Now, then, your statement No. 1, and your sheet No. 1, show in that account No. 1 that on January 1, 1928, you had on hand 76,596 shares of General Motors stock. That includes, does it not, Mr. Raskob, all stock that you had on hand anywhere at that time?

Mr. RASKOB. Yes, sir. Of course, it does not include stock—my ownership of stock in the Management Securities Corporation.

Mr. GRAY. Well, we will let it be understood that in all these questions that I am putting to you as to what your stock holdings in General Motors are, it is exclusive of the stock in the Management Securities Corporation.

Mr. RASKOB. And the Regent Corporation.

Mr. GRAY. And the Regent Corporation.

Mr. RASKOB. Yes, sir.

Mr. GRAY. Had the Regent Corporation anything to do with the management of the stock which came to you from the Management Securities Corporation?

Mr. RASKOB. The Regent Corporation now owns some of the stock that was transferred from the Management Securities Corporation.

Mr. GRAY. Well, the Regent Corporation did not own any General Motors stock until the Management Securities Corporation dissolved?

Mr. RASKOB. That is so.

Mr. GRAY. And then it took over the holdings which would otherwise have come to you?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Now, then, your account No. 2, which appears on Dyer, Hudson Co.'s books, and which you will undoubtedly concede is so, as it is simply a short account, showed that there were sales in 1927 which fixed your position in that account as of January 1, 1928, as 58,800 shares; is that right?

Mr. RASKOB. Yes; that is the number of shares sold up to that time.

Mr. GRAY. So that your long position in the stock at that time represents the difference between the figure of 76,596 shares and the 58,800 shares?

Mr. RASKOB. Yes; 17,796 is the net difference.

Mr. GRAY. Yes. Now, in January of 1928, in account No. 2, your special account, you sold 20,000 additional shares, making your total 78,800 shares; is that correct?

Mr. RASKOB. Yes, sir.

Senator FLETCHER. Was this stock of par value, Mr. Raskob, or has it no par value—the General Motors stock?

Mr. RASKOB. This was in 1928, Senator Fletcher. In 1929 the stock was split up. I do not remember whether it had a par in 1928 or not. I do not remember.

Mr. GRAY. I think it was at no par in 1928, Senator Fletcher, and in 1929 it was split two and a half for one. In 1927 it had been split two for one; and then that stock, which was the product of the two for one split, in 1929, was again split two and a half for one. Now, the stock that we are talking about is the stock that would have been worth, or should have been worth on the market to-day, if it had not been split, just two and a half times what General Motors is to-day on the market.

Senator FLETCHER. What I was asking was whether General Motors stock has par value, or no par value?

Mr. GRAY. The present stock is of no par value, and I believe the stock from which it was split was no par value stock.

Am I not correct in that, Mr. Raskob? Is that your recollection?

Mr. RASKOB. I am quite sure the old stock was no par value.

Mr. GRAY. Now, then, in your No. 1, or regular account, there was some trading, and when we reach the point—when we reach January 1, 1931—

Senator COUZENS (interposing). Before you get to that, Mr. Gray, I observe on Mr. Raskob's statement, under 1928, it shows he donated 3,000 shares, and that it was subtracted from the shares he had on hand in January, 1928.

What were those shares donated for by you?

Mr. RASKOB. Those were donated to the Catholic Foundation. That is at Wilmington. It is an association engaged in spreading Catholic doctrine through the diocese of Wilmington, which includes Delaware, and the eastern shore of Maryland and Virginia.

Senator COUZENS. In looking over this report, Mr. Raskob, I see that under the heading of the year 1929 you show, December, "Delivered to special account, 174,365 shares."

Mr. RASKOB. Well, as I explained, when I sold stock from time to time, I sold it through a special account.

Senator COUZENS. I see.

Mr. RASKOB. And if you will look in statement No. 2, under 1929, you will see that that stock was delivered to the special account to balance the number of shares that had been sold.

Senator COUZENS. In other words, it was turned back to the regular account?

Mr. RASKOB. To the special account.

Senator COUZENS. In sheet No. 2 it shows from the regular account?

Mr. RASKOB. Yes, sir.

Senator WALCOTT. And then they were sold?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Now, I want to trace your position down to January 1, 1929. On that day, according to your first sheet, you had 73,596 shares; is that correct?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Now, then, it appears from your account No. 2 that in the month of March, 1928, according to your record, you purchased 78,800 shares to square your short account; is that correct?

Mr. RASKOB. It shows I purchased 78,800 shares; that is right.

Mr. GRAY. That is right?

Mr. RASKOB. Yes, sir.

Mr. GRAY. In other words, now, without disturbing your holdings at all, you had accumulated sales in 1927 up to the point of 58,800 shares, and you sold, in January, 1928, 20,000 shares more, and then you bought in the open market, in March, 1928, 78,800 shares to cover those sales, and delivered them to your broker; is that right?

Mr. RASKOB. I don't like your reference to short sales. I was not short. It shows that I purchased 78,800 shares of stock and used it to balance my special account instead of transferring the stock from my regular account.

Mr. GRAY. Of course, I want to be perfectly fair—I think you have found me so. What you mean is that in your regular account you had an amount of stock which would offset that stock which you had sold?

Mr. RASKOB. More than enough.

Mr. GRAY. Well, as a matter of fact, a little less, Mr. Raskob, because your figures show—

Mr. RASKOB (interposing). Of what date?

Mr. GRAY. As of January 1, 1929.

Mr. RASKOB. I had 1,250 shares of the old stock, which is equivalent to 3,125 shares of the new stock, on hand at that time. I think, Mr. Gray, you refer to a month later, when I did happen to be technically short of 2,204 shares. No, that was in 1928 I was short.

Mr. GRAY. When you reached a point in March, 1928, that you purchased 78,800 shares, your account No. 2, or your special account, shows that you had sold 78,800 shares delivered just prior to March, 1928.

Mr. RASKOB. That is correct.

Mr. GRAY. And in March, 1928, on your other account, you had 73,596 shares, did you not?

Mr. RASKOB. That is correct.

Mr. GRAY. So that—we will use the word “technically”—you were technically short over 5,000 shares at that time, were you not?

Mr. RASKOB. At the end of March, 1928, you are talking about?

Mr. GRAY. Yes.

Mr. RASKOB. I have got a net balance of 33,596 shares long.

Mr. GRAY. Where do you get it from this account that you have given us? You understand, Mr. Raskob, that I have all your accounts at Dyer, Hudson & Co., but I am not using those in questioning you.

Mr. RASKOB. I understand.

Mr. GRAY. Because of the possibility of you having some accounts aside from Dyer, Hudson & Co., either short or long, I want to be accurate and, therefore, I am taking your figures.

Mr. RASKOB. In those figures, in my special account, it shows, in March, I was short 78,800 shares in the special account.

Mr. GRAY. Right.

Mr. RASKOB. That is, I had sold that much stock which I had not delivered in my regular account. There were no transactions in February. In March I bought 78,800 shares, and at the end of March I was in perfect balance.

Mr. GRAY. Yes.

Mr. RASKOB. Just a minute.

Mr. GRAY. Prior to the time——

Mr. RASKOB (interposing). I want to finish that.

Mr. GRAY. Prior to the time you bought that 78,800 shares, it showed you 78,800 shares short.

Mr. RASKOB. Not in the middle of March.

Mr. GRAY. But prior to the day you purchased that.

Mr. RASKOB. Yes.

Mr. GRAY. And your long account was 73,596 shares?

Mr. RASKOB. No; it was not. It was 76,596 shares.

Mr. GRAY. All right. That was before you donated the 3,000?

Mr. RASKOB. Yes. That shows no difference whatever. It is long.

Senator FLETCHER. What was the total amount of outstanding stock at that date of General Motors?

Mr. RASKOB. I don't know.

Mr. GRAY. Senator, so far as my investigation is concerned, I can tell you about what it was: About three-fifths of 42,000,000 shares; between 17,000,000 and 18,000,000 shares outstanding. That is common stock, which is the stock we are talking about.

Senator GLASS. Mr. Raskob, let me ask you a question right there, if I may.

Mr. RASKOB. Yes, sir.

Senator GLASS. Were any of those transactions in a pool?

Mr. RASKOB. In a what?

Senator GLASS. In a pool organized to affect the market?

Mr. RASKOB. No.

Senator GLASS. Were they your personal transactions?

Mr. RASKOB. My personal transactions.

Senator WALCOTT. And was this apparent shortage the result of selling from the box?

Mr. RASKOB. Was what apparent?

Senator WALCOTT. You say you made it good a month later. Was that sold from the box and not a typical short sale?

Mr. RASKOB. That was in August, 1930. This account shows I sold 10,000 shares which I did not deliver for six weeks later. I must have been away. And later I covered that. It was a technical short sale.

Senator WALCOTT. I understand. But in each case you had the stock?

Mr. RASKOB. Yes, sir.

Senator WALCOTT. Whether you sold from the box or made deliveries?

Mr. RASKOB. Yes, sir.

Senator TOWNSEND. You made deliveries from one account to the other?

Mr. GRAY. Not in this case.

Mr. RASKOB. In August, 1930, I sold 10,000 shares of General Motors I didn't have in my own name. I had put 76,000 shares in the Regent Corporation, which is a personal holding company. In October, I transferred 54,950 shares from the Regent Corporation to my own name and delivered 10,000 of it on this special account.

Mr. GRAY. I will come to all that, Mr. Raskob.

Mr. RASKOB. I am answering the Senator.

Mr. GRAY. Certainly, you are answering Senator Townsend's question.

Mr. RASKOB. Answering your question again, and summarizing it—

Mr. GRAY (interposing). Yes.

Mr. RASKOB. At the end of March, 1928, my regular account had 73,596 shares of stock, and my special account was in balance, so that at that time I was long and not short.

Mr. GRAY. At the end of March?

Mr. RASKOB. That is right.

Mr. GRAY. Seventy-three thousand five hundred and ninety-six shares?

Mr. RASKOB. That is correct.

Mr. GRAY. Now, then, no matter how much you had in your regular account, what you did in your special account No. 2 was to, during the year 1927, sell General Motors stock until your account showed sales aggregating 58,800 shares, and then in January of 1928 you sold 20,000 more, making your total 78,800 shares.

Mr. RASKOB. Yes, sir.

Mr. GRAY. And then in March you went out in the market and bought 78,800 shares of stock to cover those sales that had been made; is that correct?

Mr. RASKOB. That is correct.

Mr. GRAY. Do you happen to know from your books what you made on that transaction?

Mr. RASKOB. No. I happen to know I was very foolish, because I think I sold that stock at about 132, and in 1928 and 1929 it went up double that.

Mr. GRAY. But what happened after that we all know and will probably develop it in the course of this examination. But you do not have what you made in that transaction?

Mr. RASKOB. No.

Mr. GRAY. All right. Now, then, you started on your regular account in March, we will take the date where we stopped—in 1928, with a position of 73,596 shares, so far as your long account is concerned, you carried that position until January of the following year, did you not?

Mr. RASKOB. Yes, sir.

Mr. GRAY. And then you exercised the conversion privilege and turned that 73,596 shares into 183,990 shares of the new stock; that is correct?

Mr. RASKOB. That is correct; yes, sir.

Mr. GRAY. Now, in the meanwhile, in 1929, after having covered 78,800 shares in your No. 2 or special account, you sold 40,000 shares short around in March, did you not? You did not give the exact date. I can give you the date. March 10, 1928, you sold 40,000 shares short, did you not?

Mr. RASKOB. I never sold short. I always sold through the special account.

Mr. GRAY. All right. You sold through the special account?

Mr. RASKOB. That is right.

MR. GRAY. By the way, do you know, have you the date when you sold and bought in March, 1928; do you know the exact date in March?

MR. RASKOB. No; I haven't got it.

MR. GRAY. All right. Well, you immediately after covering, however, that 78,800 shares, sold 40,000, did you not?

MR. RASKOB. That is correct.

MR. GRAY. Along in July, 1928, you sold 20,000.

MR. RASKOB. That is correct.

MR. GRAY. In September, 1928, you sold 12,346 shares, did you not?

MR. RASKOB. Yes, sir.

MR. GRAY. So that in December of 1928, in your special No. 2 account, you had sold and had not supplied the stock to meet the transaction with, 72,346 shares; is that right?

MR. RASKOB. That is correct.

MR. GRAY. Now, carrying that into 1929—and your accountants, of course, on the books transferring that into the converted stock, it showed 180,865 shares that you had sold of the new stock?

MR. RASKOB. Yes, sir.

MR. GRAY. Now, let me, then, get your position in both of your accounts. You then had in your regular account in January 1, 1929, converted with a couple small additions here that you have given us, that we will not bother referring to, however, because they do not mean much, 180,865 shares; is that right?

MR. RASKOB. That is right.

MR. GRAY. Just exactly the same amount you had in the other account; is that right?

MR. RASKOB. That is right.

MR. GRAY. So your position in January of 1929 was——

MR. RASKOB (interposing). January, 1930.

MR. GRAY. No; 1929.

MR. RASKOB. I guess you mean 1930.

MR. GRAY. Wait a minute. No; I mean 1929. Now, take your account from which your regular account, in your position——

MR. RASKOB. You mean at the end of 1929, Mr. Gray?

MR. GRAY. Well, your position at the beginning of 1929 was 183,990 shares, wasn't it?

MR. RASKOB. That was the new shares; yes.

MR. GRAY. And your position at the end of September, 1929, was 180,865 shares; is that right?

MR. RASKOB. In my regular account, that is right.

MR. GRAY. Your regular account?

MR. RASKOB. Yes.

MR. GRAY. And your position at that same time in your other account was the same, 180,865, was it not?

MR. RASKOB. That is correct.

MR. GRAY. So that at the end of September, 1929, in your regular account there appears to your credit 180,865 shares, and on the same date in your special account No. 2—we will put it around the other way: In the first, you are charged with and the second you are credited with the same amount of shares?

MR. RASKOB. That is right.



Mr. GRAY. And aside from your holdings through the Management Securities Corporation, at that time you did not own a dollar's worth of General Motors stock, did you?

Mr. RASKOB. No.

Mr. GRAY. Now, then, with slight changes, your position in those two accounts in the brokerage house of Dyer, Hudson & Co. remained precisely that way until what date? I will come back and pick up those slight changes for you, Mr. Raskob, if you think they are important, and want to get them in the record. But generally speaking your position was not disturbed from that until how long? There may have been backward and forward transactions.

Mr. RASKOB. In November, I bought 6,500 shares of stock.

Mr. GRAY. Where did you buy that 6,500 shares? May I say to you that it does not appear on Dyer-Hudson's books, but on December 18 it appears that 6,500 shares were transferred to your long—to your special account.

Mr. RASKOB. No. I purchased 6,500 shares.

Senator COUZENS. While you are looking that up, I would like to ask Mr. Gray if your contention in this examination is that he has been selling short?

Mr. GRAY. At one time, Senator, while that transaction of 78,800 shares was made, it was a purely short transaction.

Senator COUZENS. For how long a period of time?

Mr. GRAY. Senator Couzens asked me, so that you may be informed, Mr. Raskob, as to whether this was a short transaction, and the time that it was a short transaction. I say that the transaction that appeared in account No. 2, as it was shown on the books, was a purely short transaction.

You ask me as to the time. There was accumulated on the sales side in the year 1927, 58,800 shares of stock. In January of 1928, there were 20,000 shares more sold.

Now, Mr. Raskob had, as you have had indicated by the evidence, approximately—a little less, but approximately—the same amount of stock in his long or regular account in Dyer, Hudson & Co., but whether it was intended originally as a sale against the box, or what it was intended as, Mr. Raskob went into the open market in the fall of 1928 and bought 78,800 shares of stock to cover those short sales that had accumulated since 1927. Then he started another account, which I am now showing, by selling 40,000 shares and then 20,000 shares, until he had sold some seventy-two thousand and odd shares, and had them transposed into the new shares, making 180,560 shares appearing on the short account. Now, how that was balanced up, I will show you in a few minutes.

Senator COUZENS. You do not contend that this was a pool operation, and that Mr. Raskob participated in it?

Mr. GRAY. I have not said a word about a pool operation.

Senator COUZENS. I was just asking.

Mr. GRAY. But Mr. Raskob was in pool operations, and I think he will admit that he has been in many of them; but that was not a pool operation.

Senator GORE. Was that in the nature of a hedging transaction?

Mr. GRAY. It was in the nature of a transaction conducted by an officer of a corporation or a director of a corporation who, for reasons

of his own, whatever they may have been, wanted to sell some of his own stock, but did not want it to appear publicly that he was doing so.

Mr. RASKOB. That is not true.

Mr. GRAY. Well, I say, I do not know what your reasons may have been, Mr. Raskob.

Senator GLASS. Then I suggest counsel not suggest the reason, if he does not know.

Mr. GRAY. I said, Senator Glass, "what his reasons may have been, I do not know." I said that very plainly.

Senator GLASS. Yes; but you suggested that it might have been.

Senator GORE. That is often done, is it not; if they think it is going to drop they sell short against it, just like a hedging transaction in wheat and cotton?

Mr. GRAY. It may have been what you call a hedging transaction, Senator Gore. I can not answer that.

Senator WALCOTT. Mr. Gray, Mr. Raskob in reply to a question that I asked a moment ago, said that he did not sell this stock short with the exception of a negligible amount, some 2,200 shares. Now, you imply that he did. I then asked him a question if that apparent shortage in April, 1928, of 78,800 shares, I believe, was the result of selling from the box. He said that was. Now, that is not a short sale, necessarily.

Mr. GRAY. It was not covered in the box, Senator Walcott; it was covered in the open market.

Senator WALCOTT. He said that he was away at one time for six weeks and could not make delivery. You could construe that from the box.

Mr. GRAY. This was not delivered from the box, according to the statement that Mr. Raskob gives to us. I am taking his own statement given us, his own figures.

Senator WALCOTT. All right.

Mr. GRAY. He covered that 78,800 shares on the market in March of 1928, and then immediately sold 40,000 more.

Mr. RASKOB. You know perfectly well, though, Mr. Gray, and you ought to get this straight on the record in fairness to the committee and in fairness to me, that while I did buy that stock in the market the brokers had that much or more of my own stock.

Mr. GRAY. That is perfectly correct. I have shown that.

Mr. RASKOB. In their office, in my regular account.

Mr. GRAY. Yes.

Mr. RASKOB. Yes; but you do not make that clear for the record or the Senators.

Mr. GRAY. I answered Senator Couzens's question, and I said to him that——

Mr. RASKOB (interposing). And I have——

Mr. GRAY. Go ahead; I do not want to argue with you.

Mr. RASKOB. I have always had more long stock in my regular account than I am short to my special account, except in the two cases that are cited. Now, in the case that you have mentioned, if I chose, instead of transferring from my long account to my special

account 78,800 shares, if I chose to buy that in the market it is a perfectly legitimate open transaction. Anybody has a right to do it.

Mr. GRAY. I am raising no question as to what you had a right to do.

Mr. RASKOB. Yes; but there is confusion in the minds of some members of the committee.

Senator TOWNSEND. Let me ask this question: Does it have the same effect? That is, selling against the box, does it have the same effect as a short sale if it is not delivered in, we will say, 1, 2, 3, or 4 months? Is the effect the same?

Mr. RASKOB. Why, I do not think so, Senator Townsend. It has been charged, and I have letters here, particularly one letter that I would like to read later on, and it has gone around the country quite generally that I, as chairman of the Democratic National Committee, have been a great bear in this market, that I have intended to sell stocks with a view to aiding and adding to the depression; whereas the reverse is true, that I have always been long of stocks. We went ahead and built the great Empire State Building during the panic with an investment of some fifty-odd million dollars, and we financed it out of our own moneys, except the first mortgage on it, entirely to help through this depression.

Now, personally I do not care, but as chairman of the Democratic National Committee, I do not like to have the Senate be put in the position of having information given out that tends to lead the general public to believe that the members of the Democratic Party, particularly those in responsible position, and particularly me, resort to that kind of thing, because it is not true.

Senator GLASS. In my judgment, that is why you are here, Mr. Raskob.

Mr. RASKOB. Now, personally, I want to say this, that while I am taking great pains to show that I have not been selling the market short, I think short selling is a perfectly legitimate thing when properly conducted. Like any other institution, it may be terribly abused, and I do not want any member of this committee to get the notion that I decry or deplore short selling. I think that if the American public had been versed in the knack and ability to sell short during 1927, 1928, and 1929 as well as they were versed in their ability to speculate long, we would not have had such a tremendous peak, and the result would have been we would not have had such a tremendous dip, either, because, when the market started down, you would have had some buying power there. I think short selling has its place, and a very good place.

So I just want to make it clear that in my insistence on having this record show that I was not short, it is only for this particular purpose, because there is no crime in short selling, and if I were not in this position, I would not be sure that I would not have sold short to some extent; back in 1928, I mean, not during this panic.

Senator WALCOTT. I want to ask you a question or two, because there is a confusion in the mind of this committee, I think, that knows very little about this business; some members of it know very little about it, and the public. These two accounts, I think, is

where the confusion occurred. All of the shares in the two accounts represented common ownership?

Mr. RASKOB. Yes, sir; that is right.

Senator WALCOTT. So that where one account appears long, the other account appears short; the difference is merely a matter of bookkeeping; is that correct?

Mr. RASKOB. That is correct, and that is why, Senator, the prepared statement No. 3, which is the consolidation—

Senator WALCOTT (interposing). Shows the difference?

Mr. RASKOB. Shows the consolidation of the two.

Senator WALCOTT. That shows the difference?

Mr. RASKOB. Yes.

Senator WALCOTT. And at no time the difference between your long account and your short account, although they were two separate accounts, but that is a mere matter of bookkeeping, shows any serious shortage. The greatest shortage you say was 2,200 shares; is that correct?

Mr. RASKOB. One time there for a month or two; 2,200 shares at that time, and another time 10,000 shares. In both of those cases, my stock holdings in the Management Securities in one case, and the Regent Corporation, which is a personal company, in the other, was at least 150,000 shares, and I still own a hundred thousand shares of General Motors stock.

Senator WALCOTT. And that short interest, as represented in these accounts, one 2,200 and another 10,000, was a matter of short duration, three or four weeks?

Mr. RASKOB. Yes, sir.

Senator WALCOTT. All within a month there?

Mr. RASKOB. The second one was six weeks.

Senator GLASS. Could it possibly have affected the market one way or the other, that inappreciable difference between your alleged short interest and the alleged long interest?

Mr. RASKOB. Not the slightest, Senator Glass.

Senator WALCOTT. Why, I think that clears it up. Does that not clear it up to your satisfaction?

Mr. RASKOB. Yes, sir; I think the record is very straight on it, Senator Walcott.

Senator COUZENS. You referred several times to the Regent Corporation. What is that? An operating company, or what is it?

Mr. RASKOB. That is just a holding company. It is a Delaware corporation that I own over 75 per cent of the stock in.

Senator COUZENS. And it buys and sells and trades in securities, is that it?

Mr. RASKOB. No; it just holds securities. Very few transactions in it.

Senator COUZENS. Receives dividends?

Mr. RASKOB. Yes.

Mr. GRAY. You remarked a moment ago, Mr. Raskob, that you had other stocks in the Management Securities and in the Regent Corporation. A few minutes ago, in response to a question I put to you, you said the Regent Corporation did not get any stock until it got that stock which was in the Management Securities Corporation. Now I want to just straighten it out. Which is correct?

Mr. RASKOB. My statement is correct. Senator Walcott asked the question about the shortage of 2,200 shares——

Mr. GRAY (interposing). I am not asking you that. I think you misunderstand me.

Mr. RASKOB. No; I do not. I understand you perfectly. In answer to the question, I said I had not been short of stocks at any time except in two instances.

Now, in the first instance, when I was 2,200 shares short, I pointed out that my interest, which was then in the Management Securities Corporation, was very much greater than that 2,200 shares.

In the second instance, when I was 10,000 shares short, my interest in the Regent, which was, as you say, not in existence back in 1928, but it was in existence in 1930 when this shortage occurred, was many times the 10,000 shares. It was 150,000 shares.

Mr. GRAY. Now if you are through with that, we will come back to the accounts. You did not for some reason use your stock that was in the long account to take care of the 78,800 shares of stock that was in your special account No. 2, did you?

Mr. RASKOB. No.

Mr. GRAY. You did buy in the open market?

Mr. RASKOB. That is right.

Mr. GRAY. I do not want to cover the ground again, but I started to ask you about something following that. You then accumulated another list of sales, so that we had reached the point in our questions and answers a few moments ago where we showed that you had 180,565 shares in one account on one side, and 180,565 shares in the other account on the other side. That was about September 30, 1929—that is correct, is it not?

Mr. RASKOB. Yes, sir; that is right.

Mr. GRAY. So that at that time you did not have a dollar's worth of stock of General Motors except the stock that you had an interest in through the Management Securities Co.?

Mr. RASKOB. That is correct.

Mr. GRAY. That is correct?

Mr. RASKOB. Yes.

Mr. GRAY. Then I ask you whether it is not a fact that, while you continued to be a director of General Motors and from September of 1929 down to December of 1930, a matter of about 16 months, that position did not remain practically the same?

Mr. RASKOB. No. In November, 1929, I purchased 6,500 shares in my special account.

Mr. GRAY. Will you tell me where you purchased that? We can find no record of it at all, and knew nothing of it until it appeared on your statement; but, as I said to you, on the contrary, the books of Dyer & Hudson show the transfer of 6,500 shares from one account to the other, but no purchase.

Mr. RASKOB. It shows in the special account in November, 1929, 6,500 shares.

Mr. GRAY. The books of Dyer-Hudson in the special account, Mr. Raskob—and our only desire is to get the correctness of this—show that it received 6,500 shares, which was transferred from the other account.

Mr. RASKOB. These statements which are on file, Mr. Gray, show very clearly that at the end of September, as you state, in the special

account I had sold 180,865 shares; that I purchased 6,500 shares, leaving 174,365 shares undelivered, and that in December of 1929 I transferred from the regular account to the special account that same number of shares, 174,365, leaving nothing in the——

Mr. GRAY (interposing). In either account?

Mr. RASKOB. No—leaving nothing in the special account and leaving a balance of 6,500 shares in the regular account.

Mr. GRAY. Well, now, Mr. Raskob, can you tell me where you got that data as to 6,500 shares? Let me say to you that your accounts from Dyer-Hudson show, as I say, first the transfer of 6,500 shares, then the transfer of 174,365 shares, and shows that both of your accounts absolutely balanced one the other on their books. We find no trace of 6,500, except that which was transferred, not bought.

And the only reason I am asking about it, so that you may understand it, is that their books show a steady position from September, 1929, to the end of the year 1930, without any change at all, not even that 6,500 change, except the transfer from one account to the other.

Mr. RASKOB. No; in the special account I sold 10,000 shares in August, 1930, and in October I transferred that to my regular account. You have got that, because you told me so in New York.

Mr. GRAY. That may be correct, but it did not alter your figures. It was a transaction that went in on one side and then went in on the other side.

Mr. RASKOB. Well, now, this transaction, which of course would not be through brokers at all, shown on statement No. 1 here in 1930, then shows the receipt of 54,950 shares from Regent Corporation. I am answering your question. You asked me if my account went on straight. So that at the end of 1930, completing the answer to your question, instead of having 6,500 shares on hand, as I did at the end of 1929, I had 22,550 shares on hand.

Mr. GRAY. Yes. You are including, however, the holdings of the Regent Corporation?

Mr. RASKOB. No.

Mr. GRAY. Only including your personal holdings?

Mr. RASKOB. That is right. In order that you might not get confused on that, Mr. Gray, I want to point out, as shown on this statement, that in September of 1930 I purchased from the Regent Corporation 54,950 shares of stock.

Mr. GRAY. When did you transfer—I may have been wrong as to my year—Mr. Watson directed my attention to it, and I thought I was right instead of he, but I think he was right as to the year. At the end of 1929, was it that you made the transfer from one account to the other and balanced them; not 1930?

Mr. RASKOB. End of 1929 I delivered 174,365 shares from the regular to the special account, and that balanced it.

Mr. GRAY. All right; did you own any Motors at that time?

Mr. RASKOB. Six thousand five hundred shares.

Mr. GRAY. That is that 6,500 shares that you and I have talked about?

Mr. RASKOB. Yes. I do not know where the confusion is about it. My records are straight.

Senator FLETCHER. In order to be a director and an officer of the corporation, you were obliged to own stock, were you not?

Mr. RASKOB. No; not under Delaware law, Senator Fletcher.

Senator GLASS. Well, assuming that Mr. Gray is right and Mr. Raskob in error, the point apparently is that Mr. Raskob was a director of General Motors and not a stockholder; is that it, Mr. Gray?

Mr. GRAY. No, sir; the point is that Mr. Raskob, as a director of General Motors, was either selling his own stock or other stock, and I am going to ask him in a moment or two why he did it that way, without just going out and selling it as possibly you or I or someone else might if they owned stock and wanted to sell it.

Senator GORE. Now, Mr. Gray, at that point, I would like to ask Mr. Raskob, in order to clear it up in my own mind——

Mr. GRAY. Yes.

Senator GORE. There are three different kinds of selling transactions: One is a pure short sale, where a man would sell a thousand shares of General Motors short, and would borrow the stock to make the delivery. When he wanted to cover, he would go in the open market and buy a thousand shares and return it to the broker from whom he borrowed it. That is a pure short sale.

Now, another selling transaction is selling against the box, where, if a man is in New York and has a thousand shares of General Motors stock locked up in a safety box in San Francisco and he wanted to sell that, he would make a sale but borrow the stock and deliver it; then when his thousand-share certificate reached New York from San Francisco, he would return that to the broker from whom he borrowed the stock, and that would close the transaction.

Now, there is still another transaction, where a man owns stock outright in a concern of which he is an officer or a director. He thinks it is good in the long run, but thinks a break in the market may be pending, and he sells short against it. That is in the nature of a hedge. We will say the stock goes down 10 points. He can do either of two things: He can take the shares of stock that he owns outright and return them to the broker from whom he borrowed it, or else he can go in the market and buy the stock outright and return to the broker. But in either case he does not make a cent. What he loses on the stock that he owned outright, it is true that he makes on the stock that he had bought short, and they cancel out.

That is not a speculating proposition. It is an effort to insure yourself against loss, just like a cotton dealer in Oklahoma City buys a thousand bales of spot cotton. He sells a thousand bales short to protect himself in the nature of a hedge. Or, in the case of wheat in Oklahoma, he buys a thousand bushels for cash, and sells short against it to protect himself and insure himself against a loss.

Now, it looks to me like this transaction here is in that category. I do not know. I do not know enough about it—the details. But if that is true, it would not be a speculative transaction, because he could not make anything, because what he lost on one he would make on the other, and what he made on the short sale he would lose on what he owned outright, because it would not be a speculative transaction, just a hedging transaction.

Now, I do not know whether that is what happened here or not, but it rather indicates that to me from what I can gather.

MR. RASKOB. Mr. Gray has made quite a point of my having in 1927 sold 58,800 shares of stock, and in January, 1928, sold 20,000 additional shares, making a total sale of 78,800 shares, which I purchased in the market in March.

For the information of the committee I would like to say that that 58,800 shares which I had sold in 1927 I sold at an average price of 132 $\frac{1}{2}$ . I haven't with me what I paid for that 78,800 shares, but the highest price that the stock sold in March, 1928, was 199, and the lowest price was 136 $\frac{7}{8}$ .

Now, inasmuch as the price I sold it at was 132 $\frac{1}{2}$ , the price I repurchased it at could not have been less than 136 $\frac{7}{8}$ . So I lost money on the transaction. I do not know the exact amount.

MR. GRAY. Now, Mr. Raskob, maybe you will tell this committee why, owning stock in General Motors during the year 1927, you went out and sold 58,800 shares in the manner you did.

SENATOR COUZENS. I confess, Mr. Gray, I do not see what that has to do with the stock exchange.

MR. GRAY. Many times, Senator—

MR. RASKOB (interposing). I would like to answer the question, unless there is objection, because—

SENATOR COUZENS (interposing). I have no objection to your answering the question, but I am frankly at a loss to see where we are drifting to.

MR. RASKOB. I don't understand it, either.

SENATOR COUZENS. I do not think any member of the committee does.

MR. GRAY. They probably will when I get through, sir.

SENATOR COUZENS. All right—we won't get through until the session is over.

SENATOR FLETCHER. Let him answer the question.

SENATOR BULKLEY. Let us hear the answer.

THE CHAIRMAN. Let him answer the question, if he wants to.

MR. RASKOB. What was the question?

THE CHAIRMAN. The reporter will read the question to you, and you may answer it, if you like.

THE REPORTER (reading):

Now, Mr. Raskob, maybe you will tell this committee why, owning stock in General Motors during the year 1927, you went out and sold 58,800 shares in the manner you did.

MR. RASKOB. I think it was for income-tax purposes.

MR. GRAY. For income tax purposes?

MR. RASKOB. Yes. It is either to establish a profit or loss for income-tax purposes. I am not sure, though.

MR. GRAY. In other words—

MR. RASKOB (interposing). But it was some very good and sufficient personal reason.

MR. GRAY. Yes. Well, tell me then, why didn't you deliver your stock?

MR. RASKOB. Well, apparently from what the—I don't remember—but apparently from what I have just told you, there was opportunity to repurchase that stock and establish a loss, get it back.

MR. GRAY. Yes.



Mr. RASKOB. It might have been the reason.

Mr. GRAY. Yes.

Senator GLASS. Is that not a very common practice among wealthy people?

Mr. RASKOB. Most common, Senator Glass!

The CHAIRMAN. Do you consider that a good practice, Mr. Raskob, a proper practice?

Mr. RASKOB. Perfectly proper; yes.

Senator GLASS. Is it not the practice that this committee is charged with inquiring about.

Mr. RASKOB. I do not see what relation it has at all to this inquiry; but that is the answer.

Mr. GRAY. Well, I would suggest, Mr. Raskob, that it is, of course, for the committee, and to a certain extent for me, to determine the question whether or not the matters that are presented are relevant to the inquiry, but I think not the witness.

Now, tell me this: Why, then, after you did what you did with respect to the 78,800 shares of stock, did you start to sell again and accumulate another position that, expressing it in the terms of the new stock after it was converted, brought you to the point where you had in your No. 2 account 180,565 shares? What was that done for?

Mr. RASKOB. Well, as I told you the other day, Mr. Gray, I was connected with the Du Pont Co. for about 25 or 30 years, and with the General Motors Corporation for 12 or 15 years, during which time I acquired more and more stock, until I got in the position where I suppose about 80 per cent of my fortune was in those two companies, and the Du Pont Co. is largely a General Motors holding company. I thought that it would be well to diversify my holdings; that, inasmuch as I had a very large holding in the General Motors, through the Management Securities Co., and later through the Regent Corporation, I would sell my General Motors direct holdings, and hold my other securities and reinvest that money in other things.

Mr. GRAY. Why do you maintain the two accounts and let them stay that way for quite a long while, and then close them by a book-keeping entry? Why don't you just sell your stock?

Mr. RASKOB. Well, because if time would indicate that it would be to my advantage to purchase the stock in the market, rather than to transfer it from the regular account. I would do it.

Mr. GRAY. Yes. In other words, what you do is this: You take a short position in one account and then you have the stock to cover that short position if you need to, but if the market goes down instead of covering your short position with your own stock, you will cover it in the market?

Senator GORE. Now, Mr. Raskob, that would not make any difference at all, would it, which stock you use?

Mr. RASKOB. Not a bit; not a particle of difference. As I explained in the beginning of the inquiry, the main purpose of this special account, which I do not call a short account at all, was to identify sales made and certificate numbers largely for income-tax purposes. It makes the accounting much simpler.

Mr. GRAY. I suggest to you and ask you whether or not these two accounts do not show transactions by you which were purely sales against the box?

Mr. RASKOB. Well, that is a slang expression that needs definition. My stock in my long account was usually with the broker, and I think in all cases with the broker and not in my box. In other words, the broker had the stock, and instead of having my whole account consolidated on one sheet, he had one account here, and the other account here.

Mr. GRAY. Did he not have to go out and borrow that stock, to take care of those transactions which appeared in your No. 2 account?

Mr. RASKOB. I never asked him. If he did, why he must have loaned my stock to some one else.

Mr. GRAY. Do you know whether he did, and whether these two accounts were kept separately?

Mr. RASKOB. I do not know.

Mr. GRAY. You do not know?

Mr. RASKOB. The accounts were kept separately, because—

Mr. GRAY (interposing). Well, I know the stock was kept entirely separately, and whether the two accounts were kept so distinct and separate that when he made those sales in the No. 2 account he borrowed stock in the market to cover them until you covered them yourself—wouldn't he have to do that?

Mr. RASKOB. He had long stocks in mine.

Mr. GRAY. I am asking you whether or not, leaving that long stock be in your long account as it was, he did not in this case go out into the open market and borrow stock to take care of your No. 2 transactions?

Mr. RASKOB. I do not know.

Mr. GRAY. Were not these transactions conducted in this way, Mr. Raskob, for the purpose of preventing the public from knowing that you were selling?

Mr. RASKOB. Absolutely not.

Mr. GRAY. Not at all?

Mr. RASKOB. No. That is proven by the fact that the stock in my long account was very generally in my own name, and whenever it was transferred to a special account, it was taken out of my name. Besides, what opportunity has the public of knowing when stock is transferred out of a person's name? There is no publicity given to it.

Mr. GRAY. There is a public record of it, of course.

Mr. RASKOB. Why no; there is not.

Mr. GRAY. In the General Motors office.

Mr. RASKOB. No.

Mr. GRAY. In the transfer office.

Mr. RASKOB. It is public—you are being technical. I don't suppose—

Mr. GRAY (interposing). You mean it is not advertised in the newspapers?

Mr. RASKOB. No; I don't mean that. I mean the stock transfer sheets of the General Motors Corporation are subject to inspection by any stockholder on proof that he is a stockholder, but I doubt if

there is one man in a month that ever goes to see it. So that in that sense it is not published, or no one knows when a man sells stock, unless they make a particular trip to find out. You know that perfectly well, Mr. Gray.

Mr. GRAY. Yes; we have made some trips.

You have spoken of the Management Securities Corporation. I think we should have on the record an explanation of what that is, so that when we run across the name of it we will understand what it is you are speaking about.

Mr. RASKOB. The Management Securities Co. was a company that was owned by about 80 of the principal men in the General Motors Corporation and who bought a large block of General Motors shares several years ago and held them, borrowed a good deal of the money to pay for it.

Mr. GRAY. That happened in 1923, did it not?

Mr. RASKOB. About that time.

Mr. GRAY. And there was some agreement made between the Management Securities Corporation and the General Motors, whereby certain stock was, shall I say, given to the officers of General Motors who organized Management Securities Corporation; is that correct?

Mr. RASKOB. No.

Mr. GRAY. You tell us what the arrangement was, won't you, please?

Mr. RASKOB. The General Motors Corporation had a contract with the Management Securities Co., which was composed of the 80 principal executives of the General Motors Corporation, under which—don't hold me to these exact figures; I will only give you the general idea of it.

Mr. GRAY. All right.

Mr. RASKOB. Under which 5 per cent, I think it was, of the profits of General Motors over and above 7 per cent of the capital employed would go to these 80 men through the Management Securities Co.

Mr. GRAY. Those figures are correct.

Mr. RASKOB. To make that a little more explicit, if General Motors had \$500,000,000 capital employed, 7 per cent of that was \$35,000,000. Now, if General Motors made \$35,000,000, the Management Securities Co. got nothing, but if they made \$40,000,000, the Management Securities Co. would get 5 per cent of that extra \$5,000,000, which would be \$250,000. I think that ran for about seven years, didn't it?

Mr. GRAY. Approximately, yes; until the other corporations took it over.

Senator WALCOTT. That was in the way of bonuses for operation?

Mr. RASKOB. Yes.

Mr. GRAY. That concern had a lot of stock, and it belonged to the concern nominally and you had an interest in it by reason of your connection with the Management Securities Corporation; that is right?

Mr. RASKOB. The Management Securities Co. was formed, as I say, by these 80 men with a capital of \$5,000,000. The men put up that \$5,000,000 out of their own pockets. They then borrowed, I think it was, \$23,000,000, and with the \$28,000,000 bought General Motors shares. The \$23,000,000 they borrowed, they borrowed from

the du Pont Co., who was glad to loan it to them in order to give these active men in the management of General Motors an opportunity to have this large stake in the ownership of General Motors, and that \$23,000,000 was paid back to the du Pont Co. by this group of men through the Management Securities Co. over the period of about seven years.

Mr. GRAY. How much stock in General Motors did the Management Securities Co. have?

Mr. RASKOB. Have you got the figures there? I don't recall. It is a very substantial ownership.

Senator FLETCHER. Well, I can not see—this committee is not investigating Mr. Raskob's private affairs or the Management Securities Corporation.

Mr. GRAY. No; but, Senator, the Management Securities Corporation has been named, and the difficulty is that when something is named and you do not know what it is I am simply clarifying that for the record. That is all.

Senator FLETCHER. I know, but we are not going into General Motors. It seems to me we have got to relate this to the stock exchange if we get anywhere. What has the stock exchange got to do with that?

Senator TOWNSEND. Mr. Raskob, may I ask just one question there? Was that \$23,000,000 paid back to the du Pont Co. from the 5 per cent profits that they made in this; not bonus, but what came from the company, or was it paid back by the sale of the stock?

Mr. RASKOB. It was paid back from the income of the Management Securities Co., which consisted of dividends received from its General Motors stock investments and also from this 5 per cent Management investment. The investment the Management Securities Co. had in General Motors was the \$28,000,000 investment, Mr. Gray, but I do not know the number of shares. I am sorry.

Mr. GRAY. That was, of course, a private corporation, and you held stock in Management Securities Corporation; that is correct, is it not?

Mr. RASKOB. That is right; yes.

Mr. GRAY. And when that was dissolved you got your interest in the stock of General Motors from the Management Securities Corporation, and that stock went into the name of this corporation of yours, the Regent Corporation; is that correct—just to finish this history and get it complete?

Mr. RASKOB. It is there now.

Mr. GRAY. Then some of that stock from the Regent Corporation went into your name?

Mr. RASKOB. That is right.

Mr. GRAY. And your holdings, you said, of General Motors, a few minutes ago when you were answering one of the Senator's questions, are how much now?

Mr. RASKOB. With my interest in Regent Corporation, it is over 100,000 shares.

Mr. GRAY. Your interest, according to your own statement, on the 1st of January of this year, or December 31 of last year, was 20,000 shares.

Mr. RASKOB. Yes.

Mr. GRAY. All right; that is all.

The CHAIRMAN. Just to clear this up—

Senator GORE (interposing). I would like to ask Mr. Raskob one other question.

The CHAIRMAN. You said that your statement showed at one time you had about 300,000 shares of this stock. Is that right?

Mr. RASKOB. No.

Senator GORE. Mr. Gray, I want to ask a question. May I ask it now?

Senator TOWNSEND. Yes.

Senator WALCOTT. He is just looking up the answer to a question, Senator Gore.

The CHAIRMAN. Well, give it approximately, if you recall it.

Mr. RASKOB. About 45,000 shares seems to be the largest net amount I held at any time, Senator Norbeck.

The CHAIRMAN. In General Motors?

Mr. RASKOB. Yes; directly.

The CHAIRMAN. Yes; but directly and indirectly about how much?

Senator WALCOTT. What would be your interest in the Regent?

Mr. RASKOB. I suppose about 200,000 shares.

The CHAIRMAN. You sold that out entirely, as I understand it?

Mr. RASKOB. My direct holdings.

The CHAIRMAN. And how near did you sell out all your holdings?

Mr. RASKOB. This statement, Senator Norbeck, shows that in January, 1928, I had a net balance of 17,796 shares, and at the end—

The CHAIRMAN (interposing). That had gone from near 300,000 down to about 5 per cent of that in holdings?

Mr. RASKOB. Let me answer your question. In January, 1928, I had 17,796 shares. Then there were certain transactions during the four years ensuing that resulted in my having 20,000 shares of stock at the end of 1931.

The CHAIRMAN. And your sales netted you what per share?

Mr. RASKOB. Well—

The CHAIRMAN. You sold most of them at the peak, did you?

Mr. RASKOB. No; very foolishly not. In 1928, the average of my sales was at \$165 a share. The stock in 1928 sold at \$224 a share. That was the peak.

The CHAIRMAN. You sold some at \$216 a share?

Mr. RASKOB. Yes; but my average of the whole 1928 sales—may I finish this whole answer?

The CHAIRMAN. Yes.

Mr. RASKOB. Because I think that there may be the inference here that an officer of a corporation has been using inside information to trade in the market to his own personal profit.

The CHAIRMAN. I am not asserting anything. I am just trying to get the facts into the record.

Mr. RASKOB. I do not mean that that is your inference, Senator Norbeck. But, I would like to get into the record, to show that there is nothing of that kind that could possibly have been true, these facts: My sales in 1928 were at an average of \$165 a share. The high price in the market in 1928 was \$224 a share.

In 1929, my average sales were at the rate of \$40.60 a share.

The CHAIRMAN. Yes; but how many shares did you sell at that low price?

Mr. RASKOB. I sold in 1929, 53,000 shares.

The CHAIRMAN. At an average of—

Mr. RASKOB. At an average of 40½. And the height that year was 46.

In 1930, I sold about 38,924 shares at an average of 37 and a fraction, and the high that year was 54.

Now, another thing I would like to—

The CHAIRMAN (interposing). What is the present market value of the stock?

Senator WALCOTT. What was the number of shares sold in 1928?

Mr. RASKOB. In 1928, 112,346.

In 1931, I sold 12,567 shares at an average price of 26½, and most of that stock was sold in October at 26½, and in November the price went up to 30.

With reference to inside information, if there is any suggestion of that, I would like to say this, that when I sold stock in 1927, the General Motors Corporation were doing a business of \$1,269,000,000 a year. In 1928, their business went up to \$1,459,000,000 a year. In 1929, it was a billion, 504 million. So I could not possibly have been selling stock on inside information that the business of the company was going down.

The CHAIRMAN. You seem to have been a very good guesser. You sold at the peak, and you bought most of it back at a lower price.

Mr. RASKOB. I do not think so. I think my records show that I would have made a good deal more money, unless I had held until now.

The CHAIRMAN. The present market is what?

Mr. RASKOB. About 8.

The CHAIRMAN. If you had sold at 16, you would have made more money?

Mr. RASKOB. No. That was in the old stock. In 1928 the old stock sold at—

Mr. GRAY (interposing). The present figure of 8½ should be figured at two and one-half times that, or a little over 20 a share.

The CHAIRMAN. Yes. You do not mean to say that if you had not sold, you would have made more money?

Mr. RASKOB. I mean to say that had I known what the market was going to be, I certainly would not have held an investment of over 100,000 shares of General Motors and still hold it, and I would not have bought B. & O. stock at 120—5,000 shares—and still hold it.

The CHAIRMAN. I think that every trader made this mistake, assuming the public was going to keep on buying, when he might have known the public was going to run out of money after a while. But the fact remains, does it not, that you sold, generally speaking, on a higher market and you bought back since on a lower market?

Mr. RASKOB. No.

The CHAIRMAN. It is not?

Mr. RASKOB. No.

Senator GLASS. Well, if you are going to sell and buy at all, if you had good sense that is what you would do?

The CHAIRMAN. I am certainly not claiming that he hasn't got good sense. I said he was a good guesser. But I am through, Sen-

ator Glass. I do not want to irritate you on this matter. We will get a Republican over here next, and I will keep still.

Senator GLASS. We will not get any Republicans over here.

I want to ask unanimous consent to put in the record the names of the board of directors of General Motors, of whom 23 are Republicans, and not one of them summoned here.

The CHAIRMAN. I want to say if there is any of them that you want summoned, we will summon them now.

Senator GLASS. I do not want to summon them. It was the business of counsel to summon them.

The CHAIRMAN. I can not argue that with you now.

Senator GLASS. Well, it is not an argument. The facts speak for themselves.

(The data submitted by Senator Glass is here inserted in the record in full as follows:)

#### GENERAL MOTORS DIRECTORS

Lamont du Pont, chairman.

G. F. Baker, jr.

Donaldson Brown.

L. G. Kaufman.

J. D. Mooney.

J. L. Pratt.

Seward Prosser.

J. T. Smith.

A. P. Sloan, jr.

J. S. Morgan, jr.

A. H. Swayne.

C. M. Wooley.

George Whitney.

O. D. Young.

Irene du Pont.

W. S. Carpenter, jr.

P. S. du Pont.

John J. Raskob

A. G. Bishop

H. F. Mott

DeWitt Page.

Sir Harry McGowan.

R. S. McLaughlin.

Fritz Opel.

A. B. Purvis.

E. R. Stettinius.

C. E. Wilson.

E. T. Strong.

M. L. Prentis.

E. R. Breech.

Senator GORE. I want to ask a question.

Senator GLASS. Now, I want to ask Mr. Raskob this question, since the chairman of the National Democratic Committee has been summoned before this committee: Mr. Raskob, was all of this money used by you in the purchase and sale of stock your own money?

Mr. RASKOB. Yes, sir.

Senator GLASS. You did not divert any campaign funds for this purpose?

Senator WALCOTT. Senator, that ought not to be in the record, do you think?

Senator GLASS. What?

Senator WALCOTT. Do you think a question like that ought to be on the record?

Senator GLASS. Undoubtedly, I think so; I put it there for the record.

Senator WALCOTT. Look at the implication of it.

Senator GLASS. Well, look at the implication of summoning the chairman of the Democratic National Committee here, and no other member of the 30 members of this board.

Senator WALCOTT. I do not know why he was summoned, do not know who suggested his name.

Senator GLASS. I am trying to find out.

Senator WALCOTT. But certainly there can not be any implication of dishonesty here.

Mr. RASKOB. If that question is going to stay on the record, of course I must answer it.

Senator WALCOTT. Why, certainly, Mr. Raskob.

Senator GLASS. In deference to my very affectionate friend who suggests it, I withdraw the question.

Senator WALCOTT. I do not want it withdrawn, unless Mr. Raskob does. I think that is a very unkind question.

Senator TOWNSEND. As long as the political side has been put into this controversy, I want to ask if there is any Republican on the committee or on the steering committee, who asked that Mr. Raskob be summoned?

Senator GLASS. Why, I can answer that for you confidently—not a one.

Senator TOWNSEND. Not a one?

Senator GLASS. No. I do not assume any Republican member of the committee, whether on the steering committee or otherwise, did it.

Mr. GRAY. You are perfectly correct in that assumption. Senator Glass.

Senator GLASS. I know I am.

Mr. GRAY. Nobody, whether it was a member of the committee, or anybody else, has ever asked me to see that Mr. Raskob was brought here, or to see that anyone else was brought here.

Senator GLASS. Still, it is a very singular circumstance that out of 30 directors of the General Motors Co., the man who happened to be chairman of a certain party committee was summoned here.

Mr. GRAY. Because he was the only one we knew who traded in this stock this way, and because—

Senator GORE (interposing). Right here I want to ask—

Mr. RASKOB. That could not be true, Mr. Gray.

Mr. GRAY. I say the only one. If you will indicate some others who have been trading and taking a short position, we will have them down here.

Senator GLASS. How did you find out about Mr. Raskob?

Mr. GRAY. Why, we have not had one, but dozens of communications. We have received a great and vast mass of communications. Some of them we ran out, and some of them do not mean a thing. They have to be forgotten.

Senator GLASS. And you really imagine that Mr. Raskob was the only one of the 30 directors of General Motors who traded in the stock?

Mr. GRAY. No. My attention was directed to the fact that Mr. Raskob had a very heavy trading account in General Motors. We sent some one to investigate it.

Senator GLASS. We have had witness after witness, more than a score of witnesses I would assume, before this committee, that never occurred to any member of the committee to even desire to ascertain the political complexion of any one.

Senator TOWNSEND. No; we never asked them, because their testimony related to—

Mr. GRAY (interposing). I have interrogated Mr. Raskob just the same as anyone else. I did not bring out who he was, did not care, and do not care now.

Senator GLASS. All right.



Mr. GRAY. I mean it made no difference whether he was Mr. Raskob, or whether he was some other person, or whether he was a Democrat, or whether he was a Republican.

Senator GLASS. It does not make any difference to me whether he is four Democrats; if he has done anything of an illicit nature, it ought to be ascertained; but it ought not to be assumed that this one Democratic member out of 30 members of the board of directors of a corporation, is the only one that ought to be catechized about this matter.

Mr. GRAY. I do not assume so, but the committee asked me one thing: They asked me to get an illustration of the members of the board of various corporations that were selling their own stock. This was a typical illustration, as I saw it.

Senator GORE. You know, Bishop Cannon was suspected of market operations.

Mr. GRAY. I will quit, though.

The CHAIRMAN. Senator Gore.

Senator GORE. Mr. Gray, how many shares of stock were involved when Mr. Raskob was supposed to be long and short exactly the same amount?

Mr. GRAY. I will have to answer you that, with respect to certain points of time. On the first of January——

Senator GORE (interposing). Take the largest amount.

Mr. GRAY. One hundred eighty thousand eight hundred and sixty-five shares.

Senator GORE. He was long and short the same amount?

Mr. GRAY. The same amount precisely, and carried that position for some months on both sides of the ledger.

Senator GORE. I want to get it, because I missed the fact. Now, then, he was long and short 180,000 shares. If the stock went down \$10 a share, he made that much, \$10 a share on his short sales, short account?

Mr. GRAY. Yes.

Senator GORE. But he lost \$10 a share on his long stock?

Mr. GRAY. Certainly. Just the same as if he did not have a share of stock.

Senator WALCOTT. No, Senator; he did not lose it unless——

Senator GORE (interposing). It came out even. He did not make a dollar or lose a dollar on his transaction?

Mr. GRAY. Exactly.

Senator GORE. Now, on the other hand, suppose General Motors stock were up \$10 a share: he would make \$10 on his long account of the shares that he owned outright, but he would lose \$10 on his short account, and he would come out exactly even?

Mr. GRAY. Yes.

Senator GORE. I can understand that as a hedging transaction to ride through a storm. It is a sort of a price insurance, as they call it in Japan. But as a speculation, I do not get it at all. It is not that.

Mr. RASKOB. Senator Norbeck, I do not like to take the time of the committee, but if I may have five minutes, I would like to read a communication.

The CHAIRMAN. You certainly may have the five minutes.

Mr. RASKOB. We are getting letters all the time. Here is a letter from a Philadelphia lawyer to the president of the du Pont Co. saying that [reading]:

Within the last week the newspapers, in giving an account of the Senate investigating of short selling in the stock market, have made the statement that Mr. John J. Raskob during the past 18 months has made a large amount of money on the short side of the market.

Senator TOWNSEND. Does it say the committee made that statement, Mr. Raskob?

Senator GLASS. No, no. Newspapers.

Mr. RASKOB. Newspapers giving an account of investigating short selling. That statement was not true, but it is the kind of stuff that has been appearing in the newspaper accounts.

This fellow goes on and says that [reading]—

Short selling in these times is as different from short selling in ordinary times as day is from night.

And he decries it and says that it is not in line with the "highest reputation of the du Pont name," and so on, and—

If an officer of your company has no more regard for the general welfare than to profit personally by the misfortune of others, then it seems to me he has lost the point of view which has certainly had a large share in making "du Pont" mean what it does—

And so on.

Mr. Lammet du Pont answered that, and wrote him a very nice letter and sent me a copy of it. I wrote to Freeman and told him that Mr. du Pont had sent me a copy of that letter, and said that [reading]:

It has been charged by Republicans in and out of Congress, even on the floor of the United States Senate, that I, by reason of my chairmanship of the Democratic National Committee, was doing everything possible to bring about and make worse the depression under which all of us are now suffering; that I was a heavy short seller of the market for the purpose of destroying security values, etc.

I have been told that the committee appointed by the Senate to investigate short selling on the New York Stock Exchange was appointed largely to develop the fact that I and other Democrats were guilty of the things charged.

I do not know whether that is true or not.

Senator TOWNSEND. I want to say for one that it is not true at all.

Mr. RASKOB (continuing reading):

The fact is that I have always been a bull on America, and that I have not sold stocks, bonds, or other securities short.

There is no language that you can use that I think will too strongly condemn a man that will deliberately sell the market short in times of panic for the purpose of adding to the panic for personal profit. To me, it is much like a man going into a theater where every seat is taken, and yelling "fire" in order to get people to rush out and thus enable him to secure a seat.

As far as I can ascertain, a large part of the short selling has been done by Republicans, who voted for and supported Mr. Hoover.

The CHAIRMAN. May I ask, Mr. Raskob, if you feel that there should be some curb put on short selling through law, or through regulations of the exchange?

Mr. RASKOB. May I finish this in answer to that?

The CHAIRMAN. Yes; go ahead.

Mr. RASKOB. Mr. Freeman wrote a very nice letter back, saying that he appreciated my courtesy in writing, and then said [reading]:

I do not for a moment mean to suggest to you any course of conduct, but certainly the newspapers and Congress have succeeded in creating a false impression, which it seems to me that you, in justice to yourself, might well correct by some public statement.

Now, that was on May 31, and then, Mr. Gray, he sent——

Senator GOLDSBOROUGH (interposing). Mr. Chairman, I should think that that ought to go on the record, and I would so request.

The CHAIRMAN. Yes; it will go in the record after he has finished for the purpose of reading them.

Mr. RASKOB. I think in the matter of short selling it is a thing that you can not prohibit; that is a natural law, and the only thing you can do is to determine the best ways and means of controlling the abuses that can be incident to short selling, or incident to any other thing in life.

Senator GLASS. Mr. Raskob, do you think that pools should be formed, and that that particular officer of the stock exchange known as the "specialist" either should himself or through his wife join these pools, and impart confidential information and undertake to manipulate the market either up or down?

Mr. RASKOB. Well, Senator Glass, strange as it may seem, I really know almost nothing about the operations of the stock exchange.

Senator GLASS. Do you think that is a proper procedure at any time, not simply in times of depression and panic?

Mr. RASKOB. I think there has been a lot of manipulating done, from what I have read, that certainly is unconscionable and unjustifiable, and ought to be prohibited; but it is largely by reason of reading newspapers, and so on, that I have that information.

What was the question you asked, Mr. Chairman?

Mr. GRAY. May I put a question or two?

Senator GOLDSBOROUGH. Will those be made a part of the record, Mr. Chairman?

The CHAIRMAN. Yes; they may be inserted in the record.

(The letters submitted by Mr. Raskob are here printed in the record in full, as follows:)

JOHNSON, GILKYSON & FREEMAN,  
*Philadelphia, May 24, 1932.*

LAMMOT DU PONT, ESQ.,

*President du Pont Co., Wilmington, Del.*

DEAR SIR: Within the last week the newspapers, in giving an account of the Senate investigating of short selling in the stock market, have made the statement that Mr. John J. Raskob during the past 18 months has made a large amount of money on the short side of the market. I am not given to the writing of "pro bono publico" letters, nor do I believe that newspaper articles are entitled to full faith and credit.

I am convinced, however, that if the facts be as stated in the public press, then all the shareholders of the company of which you are the head have just cause to complain of the acts of the treasurer of their corporation in this respect. Short selling in these times is as different from short selling in ordinary times as day is from night. One may have a perfect right to rock a boat when he alone is in it. He has no right in a storm to rock a lifeboat filled with others who may be destroyed by his act. Circumstances do alter cases very decidedly, and what is reasonable and may be blameless at one time and under one set of facts becomes quite culpable under totally different conditions.

It seems obvious to me that selling stock short at this time can have no effect other than to add to the misfortune which universally exists—and in the end that misfortune causes the corporation of which he is an officer to order a complete shutdown of its rayon plants, and thus ultimately causes a direct injury to du Pont stockholders.

The du Pont name has been held in high regard in this country for over a century, and I know of no other family in the whole Nation which for so long a time has been able to maintain such a position in the business world.

If an officer of your company has no more regard for the general welfare than to profit personally by the misfortune of others, then it seems to me he has lost the point of view which has certainly had a large share in making "du Pont" mean what it does, and gives every stockholder the right to ask you whether the statements in the newspapers are accurate, and, if they are true, what you as president of the corporation propose to do about it.

Very truly yours,

PAUL FREEMAN.

MAY 26, 1932.

MR. PAUL FREEMAN,  
*Philadelphia, Pa.*

DEAR MR. FREEMAN: Your letter of May 24, commenting on the action of Mr. John J. Raskob in short selling on the stock market, as reported by the newspapers, has been received.

The question of short selling has been much discussed recently, and to a greater or less extent for many years. Able authorities and those in a position to judge the effect of short selling differ as to whether it is desirable or undesirable, from the standpoint of the stock market and the general public. It seems to me that whether you or I have definite views on the subject is immaterial. Where there is so great difference of opinion we should not be too critical of others.

I do not know whether the newspaper reports to which you refer are correct or not. It would seem to me that the action of officers of the du Pont Co. in the conduct of their personal affairs is not a matter for the president of the company or the management to inquire into, so long as the activities of the officers are not clearly inimical to the company's interests.

May I point out to you that Mr. Raskob is not treasurer of the du Pont Co., but is a vice president, a director, and member of the finance committee, in which positions his services are, in my opinion, of great value to the du Pont Co.

Yours very truly,

LAMMOT DU PONT, *President.*

E. I. DU PONT DE NEMOURS & Co. (INC.),  
*Wilmington, Del., May 26, 1932.*

MR. JOHN J. RASKOB,  
*New York City, N. Y.*

DEAR JOHN: I inclose copy of letter dated May 24, received from Mr. Paul Freeman of the law firm of Johnson, Gilkyson & Freeman, 1609 Packard Building, Philadelphia, and copy of a reply which I have drafted but not yet sent.

Neither this law firm nor any of its regular partners listed on their letter-head is a stockholder in the du Pont Co. Have you any suggestion or comments on my reply? I have tried to give him a frank reply, truthfully stating my attitude and why I assumed it.

His letter, although not pleasant, does, I believe, express the general views of a large number of thinking people. Whether he is right or wrong, I think he is entitled to a reply, but do not believe it is up to me to try to convince him one way or the other.

Yours sincerely,

L. DU PONT, *President.*

[Extracts from a letter of John J. Raskob, dated May 27, 1932, to Paul Freeman, attorney at law, 1609 Packard Building, Philadelphia]

DEAR SIR: Mr. Lamont du Pont has sent me copy of your letter to him under date of May 24 in reply to which would advise that it has been charged by Republicans in and out of Congress, even on the floor of the United States

Senate, that I, by reason of my chairmanship of the Democratic National Committee, was doing everything possible to bring about and make worse the depression under which all of us are now suffering; that I was a heavy short seller of the market for the purpose of destroying security values, etc.

I have been told that the committee appointed by the Senate to investigate short selling on the New York Stock Exchange was appointed largely to develop the fact that I and other Democrats were guilty of the things charged.

The facts are, that I have always been a bull on America and that I have not sold stocks, bonds, or other securities short.

There is no language that you can use that I think will too strongly condemn a man that will deliberately sell the market short in times of panic for the purpose of adding to the panic for personal profit. To me it is much like a man going into a theater where every seat is taken and yelling "fire" in order to get people to rush out and thus enable him to secure a seat.

As far as I can ascertain a large part of the short selling has been done by Republicans who voted for and supported Mr. Hoover.

Very truly yours,

JOHN J. RASKOB.

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FREEMAN, FOX & STEEBLE,  
Philadelphia, May 31, 1932.

Mr. JOHN J. RASKOB,  
New York, N. Y.

DEAR SIR: I appreciate your courtesy in writing me your letter of May 27 in answer to a copy of a letter sent you by Mr. du Pont.

I was careful to try to phrase my letter in a way that would make it perfectly clear that the mere fact that the statement was put in the newspapers was not at all convincing to me that you had sold short, and I am glad to know that you agree with me on my general proposition that short selling at the present time is not a very honorable thing for one to do.

I do not for a moment mean to suggest to you any course of conduct, but certainly the newspapers and Congress have succeeded in creating a false impression, which it seems to me that you, in justice to yourself, might well correct by some public statement.

Very respectfully yours,

PAUL FREEMAN.

The CHAIRMAN. You answered my question, I believe, Mr. Raskob.

Mr. GRAY. Mr. Raskob, I want to be sure that I got your answer correctly. Do you think that pools that have been operated for the manipulation of the market are proper things to use? Is that correct? You used some very strong words with respect to them. I think, didn't you?

Mr. RASKOB. No. What I meant to say, Mr. Gray, was that some of the things that I have read as a result of this investigation I think are certainly thoroughly unwarranted and ought to be stopped.

Mr. GRAY. Did you read an account of the Radio pool that was conducted by Michael J. Meehan?

Mr. RASKOB. I read great headlines in the newspaper stating "Raskob shares in \$5,000,000 profits." As a matter of fact, I was a very heavy investor in Radio. I had, I suppose, \$4,000,000 investment there. I sold my stock at—what was it, 240 or 250, was it not, Mr. Watson—and it went up to 525. Showing what a poor judge of the market I am.

Mr. GRAY. I am not talking about that; I am talking about the pool.

Mr. RASKOB. I did not read the testimony here.

Mr. GRAY. You did not read it?

Mr. RASKOB. No, sir.

Mr. GRAY. In that case, it was shown that while there was a fairly level price of Radio prior to March 12, on the day that that pool

operated, the pool operated between March 12 and March 19, during which time the stock was put up approximately 20 points, it dropping immediately after the pool stopped its operations; that it was a pool where a member of the firm of Michael J. Meehan & Co. was a specialist, a man by the name of O'Brien, and it was a pool that had in it two gentlemen by the name of Bragg and Smith, and some of it was carried in the name of Mr. Bragg's wife, and some in Mr. Smith's wife's name, and in that pool you were one of the largest, if not the largest, pool member. Did you know that?

Senator GORE. The largest what?

Mr. GRAY. The largest member of the pool. His subscription was the largest, or one of the largest, of them all.

Mr. RASKOB. I do not know that; no.

Mr. GRAY. Did you know that you were in the Radio pool?

Mr. RASKOB. I was in that syndicate.

Mr. GRAY. Yes. You took your profits, your part of the \$5,000,000?

Mr. RASKOB. Yes.

Mr. GRAY. You knew that Meehan's firm was the specialist in Radio?

Mr. RASKOB. No.

Mr. GRAY. You did not?

Mr. RASKOB. Well, I may have. I don't know.

Mr. GRAY. Yes.

Mr. RASKOB. I don't recall it now.

Mr. GRAY. And you knew that, of course, steps were being taken by that firm for the purpose of manipulating the market and making money?

Mr. RASKOB. No.

Mr. GRAY. You did not know that?

Mr. RASKOB. No.

Mr. GRAY. You did not know that there was a very large amount of trading going on every day for the purpose of doing what has been called making the market?

Mr. RASKOB. No; I do not believe I was ever in a pool before that, Mr. Gray.

Mr. GRAY. No? How about the copper stocks pool?

Mr. RASKOB. That was afterwards, was it not?

Mr. GRAY. You are right. No; the copper stocks pool was in 1929, in the spring, while the Radio pool was in 1930, in the spring. No; Radio was 1929, in the spring of 1929.

Mr. RASKOB. I think the Radio pool was the first one, but, anyway, those were the first.

Mr. GRAY. You were in the copper stocks pool?

Mr. RASKOB. Yes.

Mr. GRAY. In Anaconda?

Mr. RASKOB. Yes, sir.

Mr. GRAY. Were you in one or more of the larger pools in copper stocks?

Mr. RASKOB. One.

Mr. GRAY. What other pools were you in?

Mr. RASKOB. Oh, I don't remember. I have not been in very many.

Mr. GRAY. Were you in Chrysler?

Mr. RASKOB. No.

Mr. GRAY. Well, now, as to the character of the manipulation, such as I have indicated to you that was testified to with respect to the Radio pool, whether you were in or out of it, that you think is improper and ought to be regulated and stopped in some manner, is that correct?

Mr. RASKOB. I do not know enough about it to answer the question.

Mr. GRAY. I thought you had already answered to that effect when I directed your attention to this particular pool.

Senator GLASS. His answer was that according to the reports of this investigation there have been manipulations in transactions and in the conduct of those pools that he thought were very reprehensible and ought to be stopped.

Mr. GRAY. And that is correct?

Mr. RASKOB. Yes.

The CHAIRMAN. Just to keep the record straight, isn't this the first Democrat that we have had before us, and that we have been having Republicans before us for a month or more?

Senator GLASS. I don't know whether we have been having Republicans or Democrats before the committee. I am not interested in that.

The CHAIRMAN. Neither am I.

Senator GLASS. Out of 30 directors of the General Motors Corporation, of whom, as I understand, 7 are Democrats, it seems that the man selected to be brought here is the chairman of the Democratic National Committee.

The CHAIRMAN. Well, I don't know about that.

Senator GLASS. And I suppose that is a mere accident.

Senator GORE. Probably they have brought him down here to offset Will Hays's record.

Mr. RASKOB. Well, I have been very glad to come. And I thank you for the opportunity of appearing before the committee, because the ideas the public has had with reference to my market transactions have been at variance to the facts.

The CHAIRMAN. In other words, Mr. Raskob, you feel pretty good on account of this matter?

Mr. RASKOB. Yes.

The CHAIRMAN. Then there is not a bit of feeling on your part about this?

Mr. RASKOB. No. I told Senator Townsend when I came in the room that it was a bad day for the Republicans.

The CHAIRMAN. Well, we thank you, Mr. Raskob, for your appearance. You have made a good witness, I think, and have been very frank with us. The committee will now rise until 2.30 o'clock this afternoon, when it will reassemble in this room.

Senator GORE. What will you consider this afternoon?

Mr. GRAY. I am going to present some testimony showing some pools in Anaconda Copper, and some operations in connection with the National City Co.

(Whereupon, at 1.05 p. m., Friday, June 3, 1932, the committee recessed until 2.30 p. m. the same day.)

## AFTER RECESS

The committee resumed at 2.30 o'clock p. m., at the expiration of the recess.

The CHAIRMAN. The committee will resume. Mr. Gray, you may proceed.

Mr. GRAY. Mr. Chairman, in the first place I wish to say that after the testimony of Mr. Lion this morning, I received a telegram which I think in fairness to the gentleman who sent it I should read into the record.

The CHAIRMAN. If there is no objection it will be made a part of the record.

Mr. GRAY. It is as follows [reading:]

NEW YORK, N. Y., June 3, 1932.

WILLIAM GRAY,

*Investigator Senate Finance Committee, Senate Building.*

DEAR Mr. GRAY: Notice Lion says he received Kolster call. Wish to repeat my testimony. I knew of no call being issued for publicity. If one was given it was without my knowledge or consent. Kindly place this in the record.

GEORGE F. BREEN.

Mr. GRAY. Mr. Higgins is here, and I have no doubt that in 5 minutes, or at the most 10 minutes, I can show through him what is absolutely a short selling transaction. Mr. Higgins, you will come around opposite the committee reporter and be sworn.

The CHAIRMAN. Please stand, hold up your right hand, and be sworn: You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matter now under investigation by the committee, so help you God.

Mr. HIGGINS. I do.

**TESTIMONY OF JOSEPH EDWARD HIGGINS, GREEN HAVEN, N. Y.**

Mr. GRAY. What is your full name?

Mr. HIGGINS. Joseph Edward Higgins.

Mr. GRAY. Where do you live?

Mr. HIGGINS. Green Haven, N. Y.

Mr. GRAY. What is your business?

Mr. HIGGINS. Stockbroker.

Mr. GRAY. Are you a member of any firm at the present time?

Mr. HIGGINS. No, sir; and I never have been.

Mr. GRAY. Are you a member of the New York Stock Exchange?

Mr. HIGGINS. I am a member of the New York Curb Exchange.

Mr. GRAY. You are not a member of the large stock exchange?

Mr. HIGGINS. No, sir.

Mr. GRAY. I direct your attention to a transaction you had in Electric Auto-Lite stock in March of 1931. Do you recall the transaction?

Mr. HIGGINS. I do.

Mr. GRAY. What was the basis of it? It was an option, wasn't it?

Mr. HIGGINS. It was an option to purchase, I believe, 75,000 shares, was it not?

Mr. GRAY. I show you now a copy of a letter addressed to you by Mr. C. O. Minniger, Toledo, Ohio, under date of March 13, 1931,



and ask you whether that letter does not represent the origin of this transaction, the option given to you to buy a certain number of shares of Electric Auto-Lite Co. common stock, at \$70 and \$75 per share?

Mr. HIGGINS. That is right, sir.

Mr. GRAY. Now, this letter reads as follows [reading]:

ELECTRIC AUTO-LITE CO.,  
Toledo, Ohio, March 13, 1931.

Mr. JOSEPH E. HIGGINS,  
Care of M. J. Meehan & Co. New York City.

Subject: Electric Auto-Lite Co. common stock no par value.

DEAR SIR: This letter will be confirmation of the fact that I have granted to you options to purchase from me block of the above-mentioned stock listed on the New York Stock Exchange, at the following prices, said option to hold good until the close of business May 9, 1931:

All or any part of 25,000 shares at \$70 per share net to me. All or any part of 25,000 shares at \$75 per share net to me. All dividends paid during the life of these options go with the stock.

This agreement is binding upon my heirs, administrators, executors, and assigns.

Will you please be good enough to confirm to me your understanding of the above-mentioned terms by signing and accepting duplicate copy of this letter inclosed herewith?

Yours very truly,

C. O. MINNIGER.

Who was Mr. Minniger?

Mr. HIGGINS. I do not know. I imagine he was the president of the company.

Mr. GRAY. He was the president of the Electric Auto-Lite Co.?

Mr. HIGGINS. I say I imagine so.

Mr. GRAY. Did you ever exercise that option?

Mr. HIGGINS. I did not; no, sir.

Mr. GRAY. What did you first do after you got that option?

Mr. HIGGINS. What did I first do after I got the option?

Mr. GRAY. Yes.

Mr. HIGGINS. I don't remember doing anything, Mr. Gray.

Mr. GRAY. Who did it for you? Michael J. Meehan & Co. handled the transaction for you, did they not?

Mr. HIGGINS. Yes, sir; for the account.

Mr. GRAY. And M. J. Meehan had discretion to do as he pleased?

Mr. HIGGINS. Yes, sir.

Mr. GRAY. The first thing that was done was to do what they call, take a position. I will get you, or I will through you, explain what that is in a moment. But that was the first thing you did, wasn't it?

Mr. HIGGINS. That was the first thing done, yes, sir.

Mr. GRAY. And that is done in this way, isn't it: When you had an option to purchase 25,000 shares at \$70 per share, and 25,000 shares at \$75 per share, you went out and sold a certain quantity of stock short at the then market price. Is that correct?

Mr. HIGGINS. Substantially so.

Mr. GRAY. And then your position is this: That if the stock goes up you can exercise your option and sell at a price that is greater than that which you paid for it, and if the stock goes down you do not have to exercise your option but you can cover your sale in the market. That is correct, isn't it?

Mr. HIGGINS. No, sir; not according to my way of looking at it.

Mr. GRAY. Well, explain it to the committee.

Mr. HIGGINS. You have the record there. The stock was sold at 70, 71½, 72, 72½, 72¾—oh, it was sold at different prices to different people no doubt, according to the record that you have there. The stock was put up to 73 or 73¼ the first day, am I right?

Mr. GRAY. I will give the exact figures in a moment. You stated that my explanation was not correct. What is your purpose in assuming a short position? Isn't it just what I said, so that if the stock goes up you can exercise your option, and if it goes down you do not have to exercise your option but you can cover your short position in the market?

Mr. HIGGINS. If you want me to state my position I will say that it was, quite naturally, to get an original position.

Mr. GRAY. For what purpose?

Mr. HIGGINS. For one purpose only, to exercise the option. That position gives you a body. You then try to mark the stock up, and put it up.

Mr. GRAY. What did you do?

Mr. HIGGINS. Buy it up.

Mr. GRAY. Which means that you were trading backwards and forwards?

Mr. HIGGINS. No; not backwards and forwards. You base the market for your stock. And if you get a short position originally, as happened in this case—and many an operation has been performed through options where that did not occur—where all the stock was first bought. But it depends upon the body of the market in the stock.

Mr. GRAY. When you take a position what do you do if the market goes up?

Mr. HIGGINS. Help the market up, naturally.

Mr. GRAY. How?

Mr. HIGGINS. I will show you. I was short 13,000 shares of stock the first day.

Mr. GRAY. Yes. I see here that you sold 36,700 shares and bought 23,700 shares, which left you short 13,000 shares.

Mr. HIGGINS. And what was it the second day?

Mr. GRAY. You sold 25,500 shares the second day and bought 21,900 shares. That was still increasing your short position.

Mr. HIGGINS. And what about the third day?

Mr. GRAY. On the third day you bought 1,100 shares, with no sales. But I do not want you to get away from what I am interrogating you about. What I want to know is, what do you do when the stock goes up? After you get your position what do you do?

Mr. HIGGINS. You naturally try to sell more stock on the way up, so that you can exercise your option.

Mr. GRAY. That is right. Because you want to sell the stock at a price over and above that which you paid under your option.

Mr. HIGGINS. You naturally want to sell at higher than your option price.

Mr. GRAY. And suppose the market goes down?

Mr. HIGGINS. You try your best to support the stock, use that short position to support it.

Mr. GRAY. And if the market keeps going down, what do you do? You buy, don't you?

Mr. HIGGINS. Naturally you do.

Mr. GRAY. Then what I said was right. If it goes up you exercise your option, and if it goes down you cover in the market.

Mr. HIGGINS. Now, Mr. Gray——

Mr. GRAY (interposing). Answer my question. Is that right?

Mr. HIGGINS. You use whatever buying power you have so as to be able to exercise your option.

Mr. GRAY. And if it goes down you cover in the market. You use that short position to support the stock. If you are not able to support it you cover in the market.

Mr. HIGGINS. Yes, sir.

Mr. GRAY. And in this case you did not exercise your option.

Mr. HIGGINS. No, sir.

Mr. GRAY. In this case you kept on buying and selling as the stock went down.

Mr. HIGGINS. I think if the stock went down—well, it was both up and down. You must remember, Mr. Gray, that I did not run this account.

Mr. GRAY. And Mr. Meehan did.

Mr. HIGGINS. He had carte blanche to do it.

Mr. GRAY. And he is a member of the New York Stock Exchange?

Mr. HIGGINS. Yes, sir.

Mr. GRAY. He acted for you?

Mr. HIGGINS. He acted for myself and——

Mr. GRAY (interposing). Well, you got the profits.

Mr. HIGGINS. No, sir.

Mr. GRAY. Who did?

Mr. HIGGINS. Nobody. As I told you in your office on Saturday morning——

Mr. GRAY (interposing). But I want you to tell the committee here where the profits went. You and Bradford Ellsworth were in it, were you not?

Mr. HIGGINS. Yes, sir.

Mr. GRAY. And although you did not take the profits in cash you had the benefit of them by their being transferred.

Mr. HIGGINS. No, sir; not transferred.

Mr. GRAY. How much did the deal make you?

Mr. HIGGINS. It was \$35,500, although Collins, Norton Co. got something like \$7,000 of that, and——

Mr. GRAY (interposing). Where were they?

Mr. HIGGINS. I don't know, either in Detroit or Toledo.

Mr. GRAY. What was their interest?

Mr. HIGGINS. I believe they were intermediaries.

Mr. GRAY. In other words, they arranged the option for you and got things started and you sent them \$7,102.44. Is that right?

Mr. HIGGINS. The firm that cleared the stock did.

Mr. GRAY. And that is M. J. Meehan & Co.?

Mr. HIGGINS. Yes, sir.

Mr. GRAY. Who else got anything out of it?

Mr. HIGGINS. Another small firm by the name of Stewart McNair.

Mr. GRAY. Stewart McNair was given a check for \$3,551.22. What was that for?

Mr. HIGGINS. I could not answer that. I imagine it was for the same reason.

Mr. GRAY. They did not both introduce you to the subject, did they? Might there have been some other reason why Stewart McNair got a little bit of it?

Mr. HIGGINS. I was not introduced to it.

Mr. GRAY. You said you thought the first firm, Collins, Norton Co., of Toledo, Ohio, got their check because they arranged the option.

Mr. HIGGINS. Yes, sir.

Mr. GRAY. What did Stewart McNair get his check for?

Mr. HIGGINS. I could not answer.

Mr. GRAY. You have no idea?

Mr. HIGGINS. No, sir.

Mr. GRAY. And the balance should have been divided between you and Ellsworth, isn't that true?

Mr. HIGGINS. Presumably so.

Mr. GRAY. But you say you did not get it?

Mr. HIGGINS. No, sir.

Mr. GRAY. Why not?

Mr. HIGGINS. For the simple reason that I told you before.

Mr. GRAY. Well, tell me again.

Mr. HIGGINS. There was a debit in two other small accounts in the office of M. J. Meehan & Co.

Mr. GRAY. You mean that you and Ellsworth owed him money on other accounts?

Mr. HIGGINS. No. Ellsworth and I on two operations owed him money.

Mr. GRAY. You mean operations in which you and Ellsworth were interested, owed him money?

Mr. HIGGINS. If you want to put it that way, I can not change it. But I am trying to explain it my way. These stocks were being run so that if by any chance there was a profit in one account, we will say a debit of \$2,500 in one account, and a credit of \$2,400 or \$2,600 in another account, it is just being run presumably the same way. That was the reason for that money not being put up.

Mr. GRAY. You lost money in one account and made money in another, and for that reason you could not take any cash out in this case.

Mr. HIGGINS. That is true.

Mr. GRAY. I now wish to ask you about this account. Starting on March 10, 1931, you sold 36,700 shares of Electric Auto-Lite Co. stock and bought 23,700 shares. On March 11 you sold 25,500 shares and bought 21,900 shares. On March 11 you bought 1,100 shares additional. On March 12 you sold 6,600 shares and bought 6,100 shares. On March 13 you sold 3,600 shares and purchased 3,300 shares. On March 16 you sold 1,900 shares and bought 10,100 shares. On March 17 you sold 5,300 shares and you bought 4,000 shares. On March 18 you sold 3,100 shares and bought 8,200 shares. On March 19 you sold 2,400 shares and bought 600 shares. On March 20 you sold 3,400 shares and bought 2,500 shares. On March 23 you sold 3,600 shares and bought 1,600 shares. On March

25 you sold 200 shares and bought 200 shares. From then on you sold no more but took an accumulating position and bought on the 30th of March 2,600 shares, and on the 31st of March 1,200 shares, and on April 15, 900 shares, and on April 16, 900 shares, and on April 17, 1,600 shares, and on April 20, 2,000 shares, and on April 21, 500 shares, and on April 27, 1,000 shares, and on April 27, again 100 shares, and balanced your account.

You dealt in 92,800 shares of Electric Auto-Lite Co. stock on each side of the market; is that correct? Does that represent a picture of the situation?

MR. HIGGINS. Mr. Gray, you have the records there. I have not seen them——

MR. GRAY (interposing). These are taken from Mr. Meehan's books.

MR. HIGGINS. Then they are correct.

MR. GRAY. You say they are then correct?

MR. HIGGINS. Yes, sir.

MR. GRAY. This is a typical short-selling transaction, isn't it, Mr. Higgins?

MR. HIGGINS. Mr. Gray, I am sorry but personally I can not agree with you on it. I might be entirely wrong and you might be right, but if it was a typical short-selling operation, which I have never entered into in my life I will say; but if it was a typical short selling operation, why did we help the stock go from 70 to 74¾ or whatever the price was? Why should we lose that average on the short position? Why shouldn't we get on the first day a short position and be satisfied, and the next day if the stock went up sell some more. The broker bought and sold all the time. Why shouldn't we let the stock go up and instead of buying the stock, selling the stock to the balance of our option?

MR. GRAY. Are you asking me?

MR. HIGGINS. Well, I am answering by asking the obvious.

MR. GRAY. I will answer by saying, because you were unable to put the stock up, and it broke too fast, and it came down from 73½ to 52½, and thus it paid you better to hold your short position and cover and make a profit of \$35,500.

MR. HIGGINS. In how long a time?

MR. GRAY. In a little over a month.

MR. HIGGINS. Well, in or about that time the entire market was in such condition that stocks broke.

MR. GRAY. The only thing I want to show by this transaction is that that is a correct statement of your account.

MR. HIGGINS. Yes, sir.

MR. GRAY. And that you never exercised your option.

MR. HIGGINS. No, sir.

MR. GRAY. And you started by selling.

MR. HIGGINS. Yes, sir.

MR. GRAY. And you ended by covering.

MR. HIGGINS. Yes, sir.

MR. GRAY. That is all that I want on that. By the way, was this your operation or Meehan's operation in your name?

MR. HIGGINS. It was the operation of McKenzie, not the man's name you have there, and myself and perhaps one or two others.

MR. GRAY. Was Meehan interested in it?

Mr. HIGGINS. It was not Michael J. Meehan's; no, sir. He was not interested in it.

Mr. GRAY. Or his wife?

Mr. HIGGINS. As to that I do not know.

Mr. GRAY. It was all conducted in your name?

Mr. HIGGINS. I do not think so. I do not think it was in anybody's name. I think it was a numbered account, No. 815 account.

Mr. GRAY. That is correct.

Mr. HIGGINS. There is no name to the account.

Mr. GRAY. It was the joint account of Bradford Ellsworth and Joseph E. Higgins, No. 815.

Mr. HIGGINS. Yes. But that was not on the books, was it?

Mr. GRAY. Yes. You were in a number of other operations with Meehan, weren't you?

Mr. HIGGINS. Yes, sir.

Mr. GRAY. In practically every pool that he created; isn't that so?

Mr. HIGGINS. I was in a number of pools or operations, whatever you choose to call them. But I was not in everything that M. J. Meehan did.

Mr. GRAY. You are an independent trader besides being a member of the curb exchange?

Mr. HIGGINS. Yes, sir.

Mr. GRAY. I believe that is all.

The CHAIRMAN. This is the only witness who has spoken of putting the market up. We have been led to believe before that it was the natural law, but this is a frank admission that it was put up.

Mr. GRAY. I think we have a number of other admissions along that line. I think Mr. Breen testified that he was employed to put up the stocks of different companies.

The CHAIRMAN. All right. Now go ahead.

Mr. GRAY. The chairman of the committee has suggested that I should endeavor to give you a picture of this transaction with reference to which I am going to call certain witnesses.

Senator TOWNSEND. Suppose you just go along and develop the facts in order to save time.

Mr. GRAY. I will endeavor to be very brief. It has been testified here that there was a small Anaconda pool and also a large one. We have that testimony, and I am going to put an accountant on the stand to show you just what those pools were, who were interested in them, and so on, because they will be traced and connected up with other parts of the story. I am then going to show you that there was an account in the name of United Metal Selling Co., a corporation controlled by the Anaconda Copper Co., that dealt and traded in stocks. I am going to show you that there was an account of the National City Co., an affiliate of the National City Bank of New York, that dealt and traded in these copper stocks. I am going to show you that there was a joint account of Mr. John D. Ryan and the National City Co. and Mr. Charles Kelly and a gentleman by the name of Thornton, who was connected with the Greene Cananea Copper Co., that dealt in Greene Cananea, and whose stock was afterwards converted into Anaconda. And another account in which the National City, Mr. Ryan, Mr. Kelly, and I think Mr. Thornton, and Mr. Guggenheim, that dealt in Chile Copper Co. stock, which was afterwards converted into Anaconda.

Senator TOWNSEND. You are now speaking of the National City Co., I take it?

Mr. GRAY. Yes, sir; an affiliate of the National City Bank of New York. The bank does not appear in these transactions, aside from the fact that they may have loaned money to the company at the time, but they were the company's bankers. There is no question to be raised about that at all. Then there was a transfer of these joint accounts into the National City Co. books from Hornblower & Weeks. And I will show you that there was some stock sold on an option, at certain prices and on certain days, by the United Metals Selling Co. to Block, Maloney & Co., and on the same date another quantity of stock was sold under Mr. Ryan's direction in this joint account in which the National City Co. was interested, that went to Block, Maloney & Co. I will show you that that stock which went into the account of Block, Maloney & Co., 50 per cent of it directly and the rest of it indirectly, eventually found its way to these two pools that I spoke of when I first opened the subject.

There are three or four other things that will appear incident to these transactions that I am going to ask Mr. Ryan or some others to explain. And I think that although this committee in other instances has had before it the situation with reference to the National City Co., and its position as an affiliate of the National City Bank of New York, I think a moment should be given to connecting it up with this company, so that you may see exactly what their position is, whether they have any right in the stock market as these transactions, or some of them, show that they were in the market.

The CHAIRMAN. This has reference to pools in the stock.

Mr. GRAY. Yes.

The CHAIRMAN. Covering what period?

Mr. GRAY. From the early part of 1929 down to October 1, 1929, and during the time from August 6, 1929, to October 1, 1929, the National City Co. conducted a campaign of its own, in which they handled over 1,225,000 shares of stock, which under high pressure selling methods they sold to the public, although you will see that an interchange of that stock amounted to only about 130,000 shares in the end, yet they were buying and selling it at the same time.

The CHAIRMAN. Putting the market up?

Mr. GRAY. I am trying to give the picture to you clearly, and I will have to give it to you step by step, fitting the different parts of it into the picture.

I will now call Mr. O'Hanlan.

The CHAIRMAN. You will stand up, hold up your right hand, and be sworn: You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matter now under investigation by this committee, so help you God?

Mr. O'HANLAN. I do.

#### TESTIMONY OF JOSEPH F. O'HANLAN, PHILADELPHIA

Mr. GRAY. What is your full name?

Mr. O'HANLAN. Joseph F. O'Hanlan.

Mr. GRAY. Where do you live?

Mr. O'HANLAN. Philadelphia.

Mr. GRAY. Where in Philadelphia?

Mr. O'HANLAN. 1542 Roselyn Street, Philadelphia.

MR. GRAY. You are an accountant?

MR. O'HANLAN. Yes, sir.

MR. GRAY. Employed by the firm of George K. Watson & Co., who were employed by this committee to do certain work for it?

MR. O'HANLAN. Yes, sir.

MR. GRAY. Under your supervision was an investigation made of what is known as the small Anaconda pool?

MR. O'HANLAN. Yes, sir.

MR. GRAY. There was no syndicate agreement in that case, was there?

MR. O'HANLAN. I think there was a letter.

MR. GRAY. And that pool was conducted through W. E. Hutton & Co., a brokerage firm in New York City?

MR. O'HANLAN. Yes, sir.

MR. GRAY. Was the letter which I now show you sent out on January 18, 1929, at the inception of this pool?

MR. O'HANLAN. That is a copy of it.

MR. GRAY. That letter indicates, and it happens to be addressed to Charles T. Fisher, of Detroit, and I will read it (reading):

W. E. HUTTON & Co.,  
New York, January 18, 1929.

MR. CHARLES T. FISHER,

9-1 $\frac{1}{4}$  General Motors Building, Detroit, Mich.

DEAR SIR: We have formed an account for the purpose of trading in the common stock of the Anaconda Copper Co. as listed on the New York Stock Exchange. This account will be known as account No. 800, and we have reserved for you a participation of 10,000 shares in the same, out of a total of not less than 200,000 shares, and not more than 300,000 shares. We are to carry the account, executing orders for the regular Stock Exchange commissions and generally managing the account.

We shall reserve the right to call the participants for such amounts as we deem necessary for purchase price, margin or otherwise. At present, we request that you send us an initial margin of 10 points, based on your participation.

The profits and losses of this account shall be divided and borne by the participants in the proportion of their respective participation.

Kindly confirm this as your understanding by signing the attached duplicate copy of this letter and returning the same to us in the self-addressed envelope.

Yours very truly,

TRADING ACCOUNT MANAGER.

NOW, you ascertained the participators in that pool?

MR. O'HANLAN. I did.

MR. GRAY. And their various subscriptions?

MR. O'HANLAN. I did.

MR. GRAY. And the distribution that was made?

MR. O'HANLAN. Yes.

MR. GRAY. I show you a sheet which purports to contain a memorandum of the participators, together with their contributions and the distribution of profits. Is that correct?

MR. O'HANLAN. That is correct.

MR. GRAY. Can you tell the committee from that, or if you have the data in front of you, use it, at just what time this pool operated?

MR. O'HANLAN. Let me see that statement.

MR. GRAY. From January 7, 1929, to March 25, 1929, is that correct?

MR. O'HANLAN. Yes, sir.

MR. GRAY. How much did this pool make in its operations?



Mr. O'HANLAN. May I refer to the summary attached to the schedule which you have there?

Mr. GRAY. Have you a summary there before you?

Mr. O'HANLAN. No. You have there the only summary.

Mr. GRAY. Here it is.

Mr. O'HANLAN. The net distribution of profits was \$1,225,765.54.

Mr. GRAY. That was the profit?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. Did any of that stock go from that pool to any other organization?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. How much and to whom or to what organization?

Mr. O'HANLAN. I think 66,000 shares went through two houses. That is, it went directly into subsequent operations, known as the copper stocks.

Mr. GRAY. That was the large copper-stocks pool?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. In other words, 66,000 shares of this stock, instead of being sold on the market at the market price, of course, passed into the hands of the copper-stocks pool that was formed?

Mr. O'HANLAN. Yes, sir.

Senator WALCOTT. What was the total amount of stock in the original pool?

Mr. GRAY. I was going to ask him the amount dealt in.

Senator WALCOTT. All right.

Mr. GRAY. Can you give us those figures?

Mr. O'HANLAN. There were 285,100 shares of stock purchased, and 219,100 shares sold, and 66,000 shares transferred to the Copper Stocks Syndicate.

Mr. GRAY. Do you happen to have the range of prices at which that stock was sold?

Mr. O'HANLAN. I can give you that if I may refer to the work paper. Here I have a memorandum.

Mr. GRAY. All right; go ahead.

Mr. O'HANLAN. The opening figure as to price was 116 $\frac{1}{4}$ , and it rose to a peak of 163 $\frac{3}{4}$ .

Mr. GRAY. That was during the time this pool operated?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. I will offer this in evidence. I am not going into all the names of this pool, but among those that are mentioned in this pool—and I want you to look at this statement so that you may be able to answer me—are found Percy A. Rockefeller. He was a member of the pool, was he not?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. And C. T. Fisher was a member of that pool, was he?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. And James A. Stillman was a member of that pool?

Mr. O'HANLAN. Yes, sir; he was.

Mr. GRAY. All right. I will now hand to the committee reporter this participation sheet, which shows the amounts and distribution of profits in the Anaconda syndicate.

(Two yellow sheets headed, "Exhibit III, Anaconda Syndicate, participation and distribution of profits, January 17, 1929, to March 25, 1929," will be here printed in the record.)

EXHIBIT III.—*Anaconda Syndicate—Participation and distribution of profit*  
January 17 to March 25, 1929

	Shares	Deposit	Profit
Mrs. T. Black	2,500	\$25,000.00	\$10,283.27
Conway & Co. (Inc.)	5,000	50,000.00	20,566.53
Geo. N. Richard	3,000	30,000.00	12,339.92
Gertrude D. Smith	25,000	100,000.00	102,832.67
P. A. Rockefeller	20,000	200,000.00	82,266.14
Berry Holding Co.	10,000	100,000.00	41,133.07
James G. Darit	2,500	25,000.00	10,283.27
Wesson Seyburn	10,000	100,000.00	41,133.07
C. M. Weatherwax	1,000	10,000.00	4,113.31
R. L. Bryner	1,000	10,000.00	4,113.31
Victor Klinker	1,000	10,000.00	4,113.31
Carl P. Dennett	1,500	15,000.00	6,169.97
A. Wilson	2,000	20,000.00	8,226.61
C. T. Fisher	10,000	100,000.00	41,133.07
Bradford Ellsworth	10,000	100,000.00	41,133.07
Mrs. E. Weisl	5,000	50,000.00	20,566.53
Ralph Hockstetter	10,000	100,000.00	41,133.07
Vera Bragg	25,000	100,000.00	102,832.67
R. P. Hawes	3,000	50,000.00	12,339.92
F. J. Fisher	10,000	100,000.00	41,133.07
Dr. H. Painter	500	5,000.00	2,056.66
Dr. W. E. Caldwell	1,000	10,000.00	4,113.31
Dr. P. M. Graussman	1,000	10,000.00	4,113.31
Sir Harry McGowen	25,000	250,028.60	102,832.67
Mrs. P. J. Maloney	10,000	100,000.00	41,133.07
Mrs. Agnes Begg	1,000	9,398.99	4,113.32
Jos. Abraham	500	5,000.00	2,056.66
C. A. Munroe	5,000	50,000.00	20,566.53
Robert W. Daniel	5,000	50,000.00	20,566.53
Edmund Coultreay	1,000	9,398.99	4,113.31
E. H. Broodwell	1,000	10,000.00	4,113.31
Cliffwood Corp.	10,000	100,000.00	41,133.07
Mrs. M. J. Meehan	10,000	100,000.00	41,133.07
W. F. Holt	5,000	50,000.00	20,566.53
W. L. Dugan	1,000	10,000.00	4,113.31
J. A. Stillman	10,000	40,000.00	41,133.07
Briggs Commercial & Development Co.	20,000	200,000.00	82,266.14
K. M. McQuail	1,000	10,000.00	4,113.31
John O'Malley	2,000	20,000.00	8,226.63
M. C. Brush	15,000	150,000.00	61,699.60
D. G. Millar	4,000	40,000.00	16,453.23
Daisy M. Dunn	2,500	25,000.00	10,283.27
Walter Richards	5,000	25,000.00	20,566.53
E. T. Clark	1,000	10,000.00	4,113.31
I. G. Broodwill	500	-----	2,056.66
L. D. Rockwell	1,000	-----	4,113.31
M. C. Andrews	500	-----	2,056.66
Lee Olwell	1,000	-----	4,113.31
Total	298,000	2,583,826.58	1,225,765.54

Mr. GRAY. Now, Mr. O'Hanlan, I will ask you to turn to what you call the large copper stocks pool. I direct the committee's attention to the fact that in this case Mr. Bragg testified that the investment of the pool participators was approximately 190,000 shares at \$170 a share as an average cost, and that the figures involved in the pool participation were about \$32,200,000. I will show you the correct figures as I go along, but I am now calling attention to that testimony. Now, Mr. O'Hanlan, the copper stocks pool was formed when?

Mr. O'HANLAN. The syndicate agreement was mailed under date of March 19, 1929, or before that date.

Mr. GRAY. This is a copy of the syndicate agreement that was mailed at the inception of that pool?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. Furnished to you by W. E. Hutton & Co.?

Mr. O'HANLAN. By Mr. Quinn at W. E. Hutton & Co.'s.

Mr. GRAY. This may have been already offered in evidence. But it indicates that they are ready to operate in 1,000,000 shares, and that they have given to the person to whom this is mailed an option to take a certain amount, that the managers are to receive 10 per cent—well, I will just offer this to be made a part of the record.

W. E. HUTTON & Co.,

52 Wall Street New York, March 19, 1929.

Private and confidential.

Copper stocks trading account.

DEAR SIR: We beg to confirm our understanding with you that we are forming "Copper stocks trading account," to trade in any copper stocks listed on the New York Stock Exchange, and that you are to have a participation of \_\_\_\_\_ shares in the same out of a total not to exceed 1,000,000 shares, upon the terms and conditions hereinafter set forth:

We are to be the managers of the trading account and we and/or the firm of which we are members may also participate therein. All transactions for the trading account shall be in accordance with and subject to the constitution, by-laws, rules, regulations, requirements, and customs of the New York Stock Exchange, as well as of the governing committees, boards of governors, other governing bodies, committees, and officials thereof. As managers, we shall have full power in our uncontrolled discretion for this account to buy, sell, and generally trade in any of the aforesaid copper stocks, either for long or short account, and to deal in puts and calls thereon, at such times and prices as we shall deem for the best interests of the account; provided, however, that the commitment of the trading account, either for long or short account, shall not at any one time exceed the aggregate of the trading account participation.

The managers, for all purposes of this agreement, hereby appoint as their agents W. E. Hutton & Co., upon whose books the said trading account is to be carried.

The managers and/or their agents, W. E. Hutton & Co., from time to time and upon two days' notice, may call, and the participants thereupon agree to pay in cash, such amount or amounts as margin as the managers may deem proper, but all calls for payment shall be made pro rata among the participants.

In case of the failure of any participants to make such payment as and when called, the managers may sell the rights and interests of the defaulting participant in and under this agreement and the stock represented thereby at public or private sale at any time thereafter without advertisement or notice and, after deducting all interest or other costs and expenses, the residue shall be applied on any liability or indebtedness of such defaulting participant, and if there be any deficiency, said participant shall pay and discharge same; any overplus shall be paid over to such defaulting participant. The managers may purchase at any such sale the rights and interests of any defaulting participant for the benefit of the nondefaulting trading account and may call for and apportion any assessment to pay for the same: provided, however, that no such assessment shall be made if the result thereof would be to increase the amount subscribed to the trading account by the participants, respectively.

Any participant may, at his election and with the consent of the managers, take up against payment for carrying purposes only his proportion of any share of stock then in the hands of the managers for this account. The managers and/or their said agents may, at their election, upon two days' notice, require any participant to take up against payment for carrying purposes only his proportion of any shares of stock then held by him for the account.

The managers shall have full discretionary power to borrow money for the trading account, either from themselves or others, and to pledge as security therefor any assets of the trading account and also to pledge as security therefor this agreement and the several obligations of the participants hereunder.

Unless sooner terminated by the managers in their discretion, the trading account will expire at the close of business on June 19, 1929. The managers however, without notice, may terminate the account at any time or may extend it for a further period of 90 days.

At the expiration of the trading account each participant shall take up and pay for his respective proportion of any shares of stock then in the hands of the managers for the trading account. Apportionment and distribution by

the managers of the profits, losses, and expenses shall be conclusive upon the participants. Participants will share pro rata in the profits and losses of the trading account after allowing for all expenses. Any loss resulting from the failure of any of the participants to carry out his or their obligation thereunder shall be charged as a loss to the trading account, but this shall not operate to relieve any participant from his liability hereunder.

Nothing herein contained shall constitute the participants partners with the managers, or with one another, or render the managers liable for the obligations of any of the participants. The default of any participant shall in no way relieve any other participant from his full obligation hereunder. The managers shall not be liable under any of the provisions of this agreement, or for any matter in connection therewith, or for the exercise of his judgment and discretion in the management of the trading account, except for want of good faith.

Any notice from the managers to any participant shall be deemed to have been duly given if mailed or telegraphed to such participant at the address furnished to the manager by such participant.

The managers are to receive 10 per cent of the net profits of the trading account as and for their services to be rendered herein, said payment to be made prior to the distribution of the profits of said trading account among the participants.

Will you kindly confirm the acceptance of your participation in this account by signing the form of acceptance upon the inclosed duplicate and returning it to us?

Very truly yours,

BRADFORD ELLSWORTH,  
THOMAS E. BRAGG,  
*Trading Account Managers.*

W. E. HUTTON & Co.,

*Agents, 52 Wall Street, New York City:*

The undersigned hereby accept a participation of ——— shares in the above trading account upon the terms and conditions above set forth.

Address to which all notices shall be sent: \_\_\_\_\_

Mr. GRAY. Now, then, Mr. O'Hanlan, what did that pool start out with?

Mr. O'HANLAN. With the opening transfer of 66,000 shares from the small pool.

Mr. GRAY. Will you in your own way—well, first, did that pool lose a lot of money?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. Will you in your own way trace those transactions? How long did the pool last?

Mr. O'HANLAN. Until May 24, 1929. The actual operations were from March 20, 1929, until May 24, 1929.

Mr. GRAY. That pool was started as soon as the other pool was closed?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. And started with what?

Mr. O'HANLAN. With the distribution of that stock.

Mr. GRAY. That 66,000 shares that were taken over?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. And those 66,000 shares were taken over at what valuation?

Mr. O'HANLAN. At \$10,669,364.

Mr. GRAY. How many other shares did they purchase during the time they operated?

Mr. O'HANLAN. They purchased four different stocks. They purchased of Anaconda Copper Co., 319,060 shares; of Andes Copper

Co., 11,000 shares; of Kennecott Copper Co., 11,500 shares; of Greene Cananea Copper Co., 8,700 shares.

Mr. GRAY. Which gave them a total of how much?

Mr. O'HANLAN. Four hundred and sixteen thousand two hundred and sixty shares, at a total valuation or a total cost of \$65,065,532.50

Mr. GRAY. Now, then, they sold. How much did they sell of the various stocks?

Mr. O'HANLAN. They sold 287,202 shares of Anaconda.

Mr. GRAY. And how much of Andes?

Mr. O'HANLAN. They sold 11,000 shares of Andes Copper Co., 11,500 shares of Kennecott Copper Co., and 8,700 shares of Greene Cananea Copper Co., which cleaned out their entire holdings in Andes, Kennecott, and Greene Cananea.

Mr. GRAY. And left them the Anaconda alone?

Mr. O'HANLAN. Yes, sir.

Mr. GRAY. For those shares which they sold what did they get?

Mr. O'HANLAN. Well, there was a dividend that came in of \$365,575. And the total of dividends and proceeds of sales was \$48,494,726.16.

Mr. GRAY. And the number of shares that they sold was 318,402.

Mr. O'HANLAN. Yes.

Mr. GRAY. Now, that left how many shares of Anaconda in that pool at that time?

Mr. O'HANLAN. Ninety-seven thousand eight hundred and fifty-eight.

Mr. GRAY. And it left them a balance of cash of how much? I don't mean balance of cash in the treasury, but I mean the balance of cash expended and represented by those 97,858 shares.

Mr. O'HANLAN. \$16,570,806.34.

Mr. GRAY. Now, that stock was then distributed among the members of the pool?

Mr. O'HANLAN. Before that there were additional expenditures of \$208,257.36, leaving a net total cost for those shares of \$16,779,063.70. And then those shares were distributed on May 24.

Mr. GRAY. And at that price what did they cost the pool who got them?

Mr. O'HANLAN. Approximately 171½.

Mr. GRAY. Now, as far as you know and as far as your investigation has gone, there is nothing to show that those stocks went into the hands of anybody but the participators; that is correct, is it not?

Mr. O'HANLAN. That is true.

Mr. GRAY. That is correct.

Senator WALCOTT. What was the profit from that operation?

Mr. GRAY. The loss.

Senator WALCOTT. The loss, I mean.

Mr. GRAY. I am going to show the loss.

Senator WALCOTT. Very well.

Mr. GRAY. Did you make a calculation to determine what the loss was? Or let me put the question to you this way: What, first, was the market, if you know, on Anaconda at the time that that distribution was taken over at a cost of 171½?

Mr. O'HANLAN. One hundred and two.

Mr. GRAY. One hundred and two. So that as a matter of fact—to answer your question, Senator—as a matter of fact, there was a dif-

ference between the cost of that stock to those who took it in the distribution and the actual market on that day of about 69½ points? Is that correct?

Mr. O'HANLAN. That is right.

Mr. GRAY. Or \$69.50 a share.

Mr. O'HANLAN. Yes.

Mr. GRAY. And the amount of shares which they took over was 97,858. Did you make a calculation as to that?

Mr. O'HANLAN. No; I did not.

Mr. GRAY. Well, it is a matter of \$7,000,000.

Mr. O'HANLAN. A little over \$6,000,000.

Mr. GRAY. Between \$6,000,000 and \$7,000,000. Now, have you got the list of participators in that pool there?

Mr. O'HANLAN. Not before me. I think you have the only list in captivity.

Mr. GRAY. There were participators through M. J. Meehan & Co., through Block, Maloney & Co., and through W. E. Hutton & Co., three different firms, is that correct?

Mr. O'HANLAN. That is right.

Mr. GRAY. Now, first let me ask you whether Block, Maloney & Co., as a firm and a member of the stock exchange, had a direct interest of their own in that pool?

Mr. O'HANLAN. Block, Maloney & Co., through an account of G. P. Maloney—or rather, G. P. Maloney had an interest in that pool through Block, Maloney & Co.

Mr. GRAY. And the account was an account known as No. 123?

Mr. O'HANLAN. No. 123, which is said by their people to be a firm-trading account.

Mr. GRAY. In other words, the information given to you at your investigation of Block, Maloney & Co. was that that was the firm's account?

Mr. O'HANLAN. That is right.

Mr. GRAY. All right. I want to ask you with respect to other members there. Now, Mr. Percy A. Rockefeller was a member of that pool. I will ask you these questions, and then you can look at it.

Mr. O'HANLAN. Let me have it.

Mr. GRAY. Mr. Percy A. Rockefeller was a member of that pool.

Mr. O'HANLAN. Yes.

Mr. GRAY. And Mr. C. T. Fisher was a member of that pool?

Mr. O'HANLAN. That is right.

Mr. GRAY. And Mr. Stillman and Mr. Olwell?

Mr. O'HANLAN. Mr. J. A. Stillman and Mr. W. Olwell.

Mr. GRAY. What does your examination show with respect to the name of Daisy M. Dunn in connection with that pool? You will find it at the bottom of page 2 of that.

Mr. O'HANLAN. Page 2?

Mr. GRAY. The bottom of page 2.

Mr. O'HANLAN. She put in a participation amounting to \$35,283.27. By a participation I mean a deposit for participation.

Mr. GRAY. Yes.

Mr. O'HANLAN. And that amount was returned to her without any participation prior to the expiration of the syndicate.

Mr. GRAY. You could get no explanation of that transaction, could you?

Mr. O'HANLAN. No.

Mr. GRAY. In other words, every dollar that she put in during the middle of the operations of the pool and at a time when the stock had depreciated in value was returned to her?

Mr. O'HANLAN. That is right.

Mr. GRAY. Now what can you say about the contribution of W. C. Durant to that pool?

Mr. O'HANLAN. Mr. Durant was credited on the books of the company with a deposit of \$505,000, on the records of M. J. Meehan & Co.

Mr. GRAY. How many shares?

Mr. O'HANLAN. For a participation of 25,000 shares. He withdrew from the syndicate on April 2, 1929, which was prior to the final distribution, and on that date he withdrew 5,960 shares for an additional assessment of \$509,094, which cost him about an average of 170 per share for the stock that he took out.

Mr. GRAY. And the market value?

Mr. O'HANLAN. The market value on that date had a range of 151 to 155.

Mr. GRAY. Now, I would like to get the market range on this stock. On March 20 what was the range of the stock when the pool started to operate?

Mr. O'HANLAN. One hundred and sixty-three and one-fourth to one hundred and sixty-six and seven eighths.

Mr. GRAY. Now, then, take two days later, March 22, after the pool had been operating for several days, what was the price of the stock?

Mr. O'HANLAN. One hundred and seventy-four and three-fourths.

Mr. GRAY. Yes. Now, without going into all the days, it then started to steadily drop for some reason?

Mr. O'HANLAN. Yes.

Mr. GRAY. And on May 16, before this pool distributed, what was it?

Mr. O'HANLAN. One hundred and twenty-seven and three-fourths.

Mr. GRAY. One hundred and twenty-seven and three-fourth. And after the syndicate distributed two weeks later what did it drop to?

Mr. O'HANLAN. One hundred and four.

Mr. GRAY. To 104. Was a man by the name of H. D. Keresey a member of that pool? K-e-r-e-s-e-y?

Mr. O'HANLAN. He was.

Mr. GRAY. I will hand to the stenographer for the record a schedule showing the participation and names of the participators, and the amounts contributed by each, and the distribution of the stock to each of those persons.

(Two sheets headed "Participations, deposits, and distribution Copper Stock Syndicate, March 20, 1929, to May 27, 1929, trading through W. E. Hutton & Co., trading through M. J. Meehan & Co., and trading through Block, Maloney & Co., are here printed in the record in full, as follows:)

## EXHIBIT No. 2.—Participations, deposits, and distribution Copper Stocks Syndicate March 20 to May 27, 1929

	Shares	Deposits	With- drawals	Assessment	Distribution of stock at cost to syndicate (\$171.47 per share)	
					Number of shares	Cost value
TRADING THROUGH W. E. HUTTON CO.						
Vera Bragg	25,000	\$211,181.81		\$394,636.76	3,533	\$605,818.57
G. D. Smith	25,000	211,181.80		394,636.77	3,533	605,818.57
Daisy M. Dunn		35,283.27	35,283.27			
E. H. Broadwell	1,000	20,000.00		4,177.83	141	24,177.83
I. G. Broadwell	500	9,500.00		2,674.65	71	12,174.65
John O'Malley	3,000	60,000.00		12,705.97	424	72,705.97
A. Wilson	2,000	40,000.00		8,527.14	283	48,527.14
D. G. Millar	10,000	200,000.00		42,464.21	1,414	242,464.21
Briggs Com'l. & Development Co.	20,000	400,000.00		84,586.60	2,826	484,586.60
Dr. W. E. Caldwell	5,000	100,000.00		21,232.10	707	121,232.10
Ralph Hockstetter	10,000	200,000.00		42,292.73	1,413	242,292.73
P. M. Gransman	1,000	19,000.00		5,177.83	141	24,177.83
Wm. Duggan	1,000	15,000.00		9,177.83	141	24,177.83
P. A. Rockefeller	20,000	400,000.00		84,586.60	2,826	484,586.60
Sir Harry McGowan	25,000	502,861.27		102,957.30	3,533	605,818.57
Berry Holding Co.	10,000	200,000.00		42,292.73	1,413	242,292.73
C. M. Weatherwax	2,000	40,000.00		8,527.14	283	48,527.14
Cliffwood Corp.	10,000	300,000.00		57,707.27	1,413	242,292.73
Wesson Seyburn	10,000	200,000.00		42,292.73	1,413	242,292.73
R. L. Bryner	1,000	20,000.00		4,177.83	141	24,177.83
Carl P. Dennett	1,000	21,169.97		3,007.86	141	24,177.83
G. R. Alexander	1,000	20,000.00		4,177.83	141	24,177.83
Victor Klinker	2,000	40,000.00		8,355.66	282	48,355.66
R. W. Hanna	1,500	30,000.00		6,352.48	212	36,352.48
American Brush Co.	25,000	500,000.00		105,818.57	3,533	605,818.57
Vera Bragg and G. D. Smith	20,000	405,000.00	5,000.00	84,586.60	2,826	484,586.60
Fred J. Fisher	20,000	400,000.00		84,586.60	2,826	484,586.60
C. T. Fisher	10,000	200,000.00		42,292.73	1,413	242,292.73
W. A. Fisher	5,000	100,000.00		21,232.10	707	121,232.10
L. P. Fisher	10,000	200,000.00		42,292.73	1,413	242,292.73
E. F. Fisher	5,000	100,000.00		21,232.10	707	121,232.10
A. J. Fisher	5,000	26,250.00		94,982.10	707	121,232.10
T. E. Bragg, P. A. Rockefeller and B. E. Smith	10,000	181,551.01		60,741.72	1,413	242,292.73
Max Bamberger	10,000	200,000.00		42,292.73	1,413	242,292.73
M. C. Andrews	500	7,000.00		5,174.65	71	12,174.65
H. T. Cunningham	10,000	200,000.00		42,292.73	1,413	242,292.73
Jesup & Lamont	5,000	100,000.00		21,232.10	707	121,232.10
Mrs. Ed. Weisl	5,000	100,000.00		21,232.10	707	121,232.10
Rands, Inc.	5,000	100,000.00		21,232.10	707	121,232.10
J. A. Stillman	5,000	100,000.00		21,232.10	707	121,232.10
Cynthia Smith	2,500	50,000.00		10,702.79	354	60,702.79
W. Olmell	1,000			24,177.83	141	24,177.83
Total	341,000	6,264,979.13	40,283.27	2,038,645.69	48,190	8,263,341.55
TRADING THROUGH M. J. MEEHAN & CO.						
J. J. Raskob	50,000	2,000,000.00		788,302.24	7,066	1,211,697.76
W. F. Kenny	50,000	1,262,500.00		50,802.24	7,066	1,211,697.76
Walter P. Chrysler	25,000	1,000,000.00		394,151.12	3,533	605,848.88
W. C. Durant	25,000	505,000.00		509,094.00	5,960	1,014,094.00
Conway & Co.	20,000	800,000.00		315,389.48	2,826	484,610.52
M. Frank	20,000	800,000.00		315,389.48	2,826	484,610.52
J. E. Higgins	5,000	200,000.00		78,933.11	706	121,066.89
Bradford Ellsworth	20,000	800,000.00		315,389.48	2,826	484,610.52
J. J. Riordan	10,000	400,000.00		157,694.74	1,413	242,305.26
Mrs. M. J. Meehan	25,000	1,001,000.00		394,151.12	3,533	605,848.88
T. J. Mara	10,000			242,305.26	1,413	242,305.26
Total	260,000	8,767,500.00		2,658,803.75	39,168	6,708,696.25

<sup>1</sup> Paid in cash \$57,707.27 excess of deposit over value of distribution.<sup>2</sup> Withdrew Apr. 2, 1929.



**EXHIBIT No. 2.—Participations, deposits, and distribution Copper Stocks Syndicate March 20 to May 27, 1929—Continued**

	Shares	Deposits	With- drawals	Assessment	Distribution of stock at cost to syndicate (\$171.47 per share)	
					Number of shares	Cost value
TRADING THROUGH BLACK, MALO- NEY & CO.						
J. McP. Keresy.....	1,000	\$20,000.00		\$4,093.68	140	\$24,093.68
T. F. Friel.....	500	10,000.00		2,046.84	70	12,046.84
Mrs. D. Cohalan.....	500	10,000.00		2,046.84	70	12,046.84
R. T. Stone (special).....	1,500	25,000.00		11,140.52	210	36,140.52
C. A. Butler.....	2,500	35,000.00		25,234.20	350	60,234.20
R. P. Haws (special).....	6,000	70,000.00		74,562.07	841	144,562.07
H. D. Keresy.....	1,000	20,000.00		4,093.68	140	24,093.68
Do.....	5,000	50,000.00		70,468.39	700	120,468.39
C. B. Richards Co.....	6,000	100,000.00		44,562.07	840	144,562.07
Kidder Bros.....	2,000	50,000.00		1,812.64	280	48,187.36
T. K. Black (special).....	500	7,000.00		5,046.81	70	12,046.84
Mrs. C. P. Maloney (special firm account).....	2,000	28,000.00		20,187.36	280	48,187.36
Mrs. P. J. Maloney, sr.....	46,500	143,700.00		768,156.05	6,510	1,120,356.05
Mrs. P. J. Maloney, jr.....		178,000.00				
Daniel Cohalan.....		3,600.00				
E. Couftry (special).....		13,500.00				
Mrs. L. Gelinas.....		6,700.00				
Mrs. Agnes Begg.....		6,700.00				
Total.....	75,000	777,200.00		1,029,825.90	10,500	1,807,025.90

Mr. GRAY. I think that is all, Mr. O'Hanlan.

(Witness excused.)

Mr. GRAY. Mr. Mitchell, will you take the stand, please.

**TESTIMONY OF CHARLES E. MITCHELL, CHAIRMAN OF THE NATIONAL CITY BANK OF NEW YORK AND CHAIRMAN OF THE NATIONAL CITY CO.**

The CHAIRMAN. You may be sworn, Mr. Mitchell. You do solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matter now under investigation by the committee, so help you God?

Mr. MITCHELL. I do.

Mr. GRAY. Mr. Mitchell, I am probably not going to disturb you with respect to the matters of the dealings in Anaconda, because there are some others that are probably a little more familiar than you with it. But I am going to ask you first as to your position with the National City Bank.

Mr. MITCHELL. I am chairman of the National City Bank.

Mr. GRAY. By that you mean you are the chairman of the board?

Mr. MITCHELL. No; I am chairman. It is an office that carries the title chairman. The chief operating officer.

Mr. GRAY. And in a general way what are the duties of the chairman? I do not want you to go into detail.

Mr. MITCHELL. As chairman I am the chief operating officer. The manager.

Mr. GRAY. As the chief officer or manager of the bank through its board?

Mr. MITCHELL. Yes.

Mr. GRAY. And the National City Co. is an affiliate of the National City Bank, is it not?

Mr. MITCHELL. It is.

Mr. GRAY. And has been in existence how long?

Mr. MITCHELL. It was organized in 1911, I think.

Mr. GRAY. Whether you have ever testified before in response to the question I am going to put to you now before this committee or not I do not know, but I would like to have it on this record. What was the purpose of the organization of the National City Co.?

Mr. MITCHELL. It is really difficult for me to say. It was organized before I came there. But in general it was organized to hold securities that could not be held under the law by the bank itself.

Mr. GRAY. In other words, the bank not having the right legally to hold certain securities, organized an affiliate so that that affiliate representing the same interests that are represented in the bank might hold those securities for it?

Mr. MITCHELL. That is right.

Mr. GRAY. And was it organized for speculative purposes also?

Mr. MITCHELL. No.

Mr. GRAY. Has it engaged in speculation in stocks?

Mr. MITCHELL. It never operated in stocks until 1928, when by an action of the shareholders of the bank a separate sum of money was set aside in the City Co. to hold securities other than bonds that were being regularly distributed.

Mr. GRAY. Will you pardon me, but I did not understand your statement. That by an action of the shareholders of the bank—

Mr. MITCHELL. That is right.

Mr. GRAY (continuing). A certain sum of money was set aside for the purpose of the operations of the company?

Mr. MITCHELL. That is quite true.

Mr. GRAY. What have the shareholders of the bank to do with the determination of what shall be done by the company?

Mr. MITCHELL. The stock of the National City Co. is not owned by the bank. It is owned by trustees who hold it for the benefit of the shareholders of the bank.

Mr. GRAY. Let us get that—

Mr. MITCHELL. Excuse me. You asked a question.

Mr. GRAY. I wanted to get that set-up clearly.

Mr. MITCHELL. Permit me to finish my answer.

Mr. GRAY. Go ahead.

Mr. MITCHELL. In 1928, in the spring of that year, the stockholders increased the capital stock of the bank by offering additional shares of the bank to the shareholders with the understanding that a certain portion of the avails of that subscription should be used to increase the capital funds of the company, and that a certain sum of money should be set aside in this manner by the company to be invested in stocks, to be invested or held by the company in securities of a character the holding of which would inure to the benefit of the bank and of the company.

Mr. GRAY. Now, that was an action of the shareholders of the bank, was it?

Mr. MITCHELL. That was an action of the shareholders of the bank.

Mr. GRAY. The shareholders of the bank are precisely the same persons that benefit under the trust agreement?

Mr. MITCHELL. That is true.

Mr. GRAY. By which the shares of the National City Co. are held?

Mr. MITCHELL. That is true.

Senator COUZENS. May I ask at that point if the shares of the National City Bank show the equal ownership in the National City Co.?

Mr. MITCHELL. They do. On the reverse side of the certificates, Senator Couzens, is the evidence of participation in these beneficial trusts. One being a beneficial trust in the shares of the National City Co., the other being a beneficial interest in the shares of the City Bank Farmers Trust Co., which is our separately organized trust company.

Senator COUZENS. So, in effect, if a person owned 10 per cent of the stock of the National City Bank he would own 10 per cent of the National City Co. and the other company, the trust company?

Mr. MITCHELL. That is right.

Senator GLASS. That was a requirement, was it not, Mr. Mitchell?

Mr. MITCHELL. I assume that it was, Senator Glass. It was before my day. And when I first became interested with the National City Bank that indorsement was then being used.

Senator COUZENS. What was your occupation before then, Mr. Mitchell? What was your occupation before you assumed that duty?

Mr. MITCHELL. I came to Wall Street from a position of assistant general manager of the Western Electric Co. I was assistant to the president in the Trust Co. of America. I then formed my own investment banking concern, and I came to the National City Co. in 1916. At that time it was a very small organization of four men.

Senator COUZENS. That was where you first got your financial experience, was it?

Mr. MITCHELL. I got my first financial experience many years before that, Senator.

Mr. GRAY. Did you want to ask some questions, Senator Glass?

Senator GLASS. Mr. Mitchell, not being connected with the company, perhaps you may not be able to answer the questions that I am going to ask now. Among the securities first held by the National City Co. were there bank stocks, National Bank stocks?

Mr. MITCHELL. I can not answer that, Senator Glass.

Senator GLASS. Well, let me ask this further question. I did not assume that you could answer that. Does the company hold any National Bank stocks now at all?

Mr. MITCHELL. None.

If I might just take a moment to give you the exact wording of the notice that went to shareholders at the time they were asked to vote upon the increase of stock to give funds to the City Co. for a specific purpose. These were the words that were used:

These additional capital resources should be provided to permit the company to acquire from time to time for short or long term investment account, bonds,

stocks, or other equity interests the holding of which will facilitate the development of its regular business or generally inure to the benefit of the bank and the company, and that such resources can be thus profitably employed.

Mr. GRAY. As I understand the situation, one can not be a stockholder in the National City Bank without being a stockholder in the National City Co.? And one can not be a stockholder in the National City Co. without being a stockholder in the National City Bank? Is that correct?

Mr. MITCHELL. That is not exactly a correct statement of it, because the stock of the National City Co. is held by three trustees who hold it for the benefit of the shareholders of the National City Bank.

Mr. GRAY. Yes.

Senator GLASS. But in essence that is the fact, is it not?

Mr. MITCHELL. In essence; yes.

Mr. GRAY. And in essence the National City Bank and the National City Co., though artificially they are different, are as a matter of fact one institution?

Mr. MITCHELL. The National City Co. I regard as a part of the institution known as the City Bank.

Mr. GRAY. Was the National City Co. at any time organized for or authorized to generally trade in stocks on the market?

Mr. MITCHELL. I think their charter clearly gives them that permit; yes.

Mr. GRAY. Did they do that?

Mr. MITCHELL. They have done it at various times; yes.

Mr. GRAY. Do they do it for any specific purpose at times?

Mr. MITCHELL. Always do it for specific purposes; yes, Mr. Gray.

Mr. GRAY. And among those purposes are what?

Mr. MITCHELL. It may be that we are acting for clients. It may be that we have been acting for ourselves. And for various purposes. I could name 50 purposes.

Mr. GRAY. Suppose I ask you about one.

Mr. MITCHELL. Yes.

Mr. GRAY. Do they operate, that is, trade, buy, and sell stocks on the market for the purpose of keeping up an active market while you are, through your sales force of the National City Co., selling throughout the country certain stocks?

Mr. MITCHELL. I must say this. Our operation in stocks through our organization was a matter of rather short life. We never operated in stocks at all, never offered common stocks through our organization until, I should say, the latter part of 1928, or perhaps 1929. I should say 1928. We then did offer some railroad shares, Southern Railway, Baltimore & Ohio, what we regarded as prime investment stocks.

Mr. GRAY. Including Anaconda?

Mr. MITCHELL. We offered Anaconda in 1929.

Mr. GRAY. Well, now, what I am asking is, during the time that you were selling through your sales force these common stocks, were you at the same time buying and selling, that is, the National City Co., on the market, so as to keep up an active market and to cause the price to be sustained?

Mr. MITCHELL. Well, I would not say for that particular reason; no. I can conceive of perhaps at the same time entering into the support of an overloaded market at the time when an offering was being made. And while we had a demand on the outside through our distributing organization that would take not only what we had but far more, I can conceive our buying in the market for the purpose of being helpful to a concern that we are bankers for.

Mr. GRAY. What do you mean by helping an overloaded market?

Mr. MITCHELL. If I might take, with your permission, Senator Townsend, just about five minutes. I have listened attentively to—

Mr. GRAY. Well, will you answer my question, and then take the five minutes? I would like to get the question answered first.

Mr. MITCHELL. No; I can answer it best if you will just give me a moment for a background of this, because I have told that it is a thing that might be done.

Senator TOWNSEND (presiding). I think the attorney will agree to let you do that.

Mr. GRAY. Well, I haven't the slightest objection, because if he does not answer it in the five minutes that he takes I will ask him when he is through.

Mr. MITCHELL. Quite so. I am at your complete convenience.

Senator TOWNSEND (presiding). You may proceed, Mr. Mitchell.

Mr. MITCHELL. Your discussion is regarding the Anaconda stock. In times such as we have been through and with a lot of loose discussion regarding the bull side of the market as well as the bear side—and much of it justified—there has been a good deal of talk about the Anaconda and the relations of the National City with the Anaconda. Now our relations with Anaconda as an institution began back in 1895. We have seen that company through—

Senator WALCOTT. Mr. Mitchell, when you use the word "our," you mean—

Mr. MITCHELL. I am speaking of the institution.

Mr. GRAY. The bank.

Senator WALCOTT. You are speaking of the affiliate, not the bank?

Mr. GRAY. No; the affiliate did not exist then, Senator.

Mr. MITCHELL. No; that was the bank.

Senator WALCOTT. Yes.

Mr. MITCHELL. And the first public financing, and the first financing that was done for this institution was offered by the bank, Senator Walcott—

Senator WALCOTT. Yes.

Mr. MITCHELL. That began back in 1895. That company was a very small company then, having about \$35,000,000 of resources. It has developed gradually and in part through the financing that we have done for them as an institution. Sometimes in a banking way, commercial banking way, and sometimes in an investment banking way. We have floated for that company to the public over \$290,000,000 of fixed maturity obligations, all of which have now been paid, and paid at a premium, and those that were convertible securities at very, very large premiums. With the exception of \$35,000,000 of bonds which still rest upon the Chile Copper Co. and

Anaconda Copper. In other words, we have had a very close banking relationship.

Now, when we established in 1928 these special funds in the National City Co. for the acquisition of equities, one of the first steps that we took was to purchase 50,000 shares of Anaconda stock.

Mr. GRAY. From whom?

Mr. MITCHELL. From the United Metals Selling Co.

Mr. GRAY. Which is the Anaconda Co.?

Mr. MITCHELL. Which is an affiliate of the Anaconda Copper Co. I do not know where else we could better purchase it than from our friends.

Mr. GRAY. Well now you say, Mr. Mitchell—

Mr. MITCHELL. If I may be permitted—

Mr. GRAY. No; you will pardon me just a minute. I am going to ask the chairman's permission to interrupt you, because you were going to take the five minutes to answer the question, and I have not the slightest objection, and I do not think the committee has, to having you put any statement you want on the record, and I intend to go into an inquiry about these Anaconda transactions, but I would like to have you answer that question, please.

Mr. MITCHELL. I am coming to that question in just about another minute.

Mr. GRAY. Let me get the background and then we can go ahead.

Mr. MITCHELL. I am setting up the background.

Senator TOWNSEND (presiding). All right.

Mr. MITCHELL. We put into our portfolio 50,000 shares of stock. It was an account from that time on, from April, 1928, until June of the following year, that was with us purely an investment account. At times that account did go up and at times it went down. When the market was a strong market we sold some stock. When it was a weak market we bought some stock.

In October of 1928 there was a conversion of Anaconda convertible 7's, and at that time in that operation—it was a bond that we had put out—in that operation we acquired some additional stock, and that particular investment account ran up to a total of 114,000. It promptly came down again and went below the 50,000 mark at times. In February, 1929, it was an account that was down to 38,000 shares. It continued in that way until June, 1929.

In June, 1929, having offered some common stocks to the public at prices that we thought were thoroughly justified by an investment analysis, we decided that we would offer Anaconda stock to the public through our sales organization. At that time we figured that that could be considered an investment stock at somewhere between \$120 and \$135 a share. And let me call your attention to the fact that at 14-cent copper, which is  $11\frac{1}{2}$  cents below the 35-year average, that property will show earnings which justify a price of \$135.

Senator WALCOTT. How much a share, do you remember?

Mr. MITCHELL. I beg your pardon?

Senator WALCOTT. How much a share of earnings? What were the earnings per share at that time, do you remember? Approximately?

Mr. MITCHELL. They were earning at that time at the rate of about \$12 a share. That is in June, 1929. We bought in June, 1929, some

additional stock. And in July by conversion of the Andes stock and the conversion of the Greene stock, which more or less rounded out the Anaconda picture, we acquired up to a total of 208,000.

Mr. GRAY. Two hundred and ten thousand seven hundred and seventy-four.

Mr. MITCHELL. Call it anywhere. It was around 200,000 shares. Your exact figures are not particularly interesting.

Mr. GRAY. I am interested in them.

Mr. MITCHELL. Well, the broader picture is so much more interesting to me, and I can not believe, gentlemen, but that it will be to you. Remember that in June, 1929, here was a company that controlled 20 per cent of all of the copper production of the world. It was not a mining company. It was an integrated industrial company. Its acquisition of the American Brass & Copper Co. and the improvements to that company had given it 50 per cent of all the fabricating capacity of the United States. Its reserves constituted a third and more of all the known copper reserves of the world. It was a business—

Senator WALCOTT. That includes Chile, of course?

Mr. MITCHELL. It includes Chile. It did not include at that time the African mines which have since been developed. But with the development that there has been in the Chile Copper Co. alone the Chile Copper Co. to-day has as much proven ore as all of the African mines combined. In other words, we are not talking as we sit here, gentlemen, about a stock manipulation in some fly-by-night concern. We are talking about offering an investment of the prime quality in one of America's greatest industrial properties.

Mr. GRAY. Mr. Mitchell, you do not know what I am talking about yet at all, because I have not—

Mr. MITCHELL. I am coming to your question and am going to give you an answer.

Mr. GRAY. I have not discussed anything with you except the National City Co.

Mr. MITCHELL. The committee has given me permission, Mr. Gray, to make a statement of this situation, and unless Senator Townsend stops me—

Senator TOWNSEND (presiding). Yes; proceed, Mr. Mitchell.

Mr. MITCHELL (continuing). I would like to proceed with this. We built up our holdings to a little over 200,000 shares preparatory to an offering at a favorable time. We realized that when we started to offer this stock through our sales organization that 200,000 shares would not be sufficient for the demand from our customers, and at that time we asked the United Metals Selling Co. for an option on 100,000 shares to be exercised at our will during the next two or three months, which gave us a total of about 300,000 shares on which we could start to move through our sales organization.

We started to move through our sales organization in distributing this stock the last of the first week in August, I think August 6, if I recall the date correctly. During the early days of that offering we found that there was apparently a good deal of loose stock in the market—that is, stock which was held speculatively, evidently. We had never been in any of these pools, but whether this stock which was loose in the market had come to members of those former pools

who were prepared to sell it or not, or whether by virtue of these conversions of Greene Cananea and Andes which had taken place in July, from one cause or another there was a good deal of so-called undigested stock in the market. Now I am coming to your question.

Mr. GRAY. Part of it that 97,000 shares that was distributed from that second pool?

Mr. MITCHELL. I do not know. I have said that I do not know. I have already said that I do not know as to where the stock came from. But being bankers for the company, even though we promptly sold that 300,000 shares which we owned and had under option, it became our duty, or so we conceived it, so long as our customers viewed that stock as an investment stock, to buy in the market and to sell additional shares to them. Which we did. And thus it came about that we bought this very large amount of stock during August and September and distributed through our organization.

Senator WALCOTT. In addition to the 300,000?

Mr. MITCHELL. In addition to the 300,000 shares. And we closed the account early in October. At which time we had no stock in the active account, and we had taken from the so-called investment account so that there were only 448 shares, or something of that sort. We had sold out, and we advised our organization that we had sold out, and then we accumulated for our own account again, in the open market bought up to 50,000—60,000 shares, whatever it may be. And we still hold it.

Senator COUZENS. May I ask a question?

Mr. MITCHELL. Yes.

Senator COUZENS. How many of your directors have Anaconda stock?

Mr. MITCHELL. I have no means of knowing that, Senator Couzens.

Senator COUZENS. Have you any directors on your bank board that are also officers or directors of the Anaconda?

Mr. MITCHELL. I am a director of the Anaconda Copper Co. Became a director in May, 1929. Mr. John D. Ryan, who is chairman of the Anaconda Copper Mining Co., is one of the directors of the National City Bank. Mr. Percy Rockefeller, who is a director of the National City Bank and the National City Co., is a director of the Anaconda Copper Mining Co.

Senator COUZENS. But that adds to the beautiful picture you have been painting, does it not?

Mr. MITCHELL. Well, I don't quite—

Senator COUZENS. That adds to the nice picture that you have been painting about the Anaconda and the National City Co. You have been picturing a very beautiful picture of how the whole thing developed, and I just was getting the background of it.

Mr. MITCHELL. All right.

Senator TOWNSEND (presiding). All right, Mr. Mitchell, have you laid your background sufficiently to answer the question?

Mr. MITCHELL. I think that we should lay it thoroughly.

Mr. GRAY. What do you mean by helping an overloaded market?

Mr. MITCHELL. I mean the purchase of shares which are obviously speculative shares, that is, speculatively held shares, taking those up and through a distributing organization that was in touch with investors put those shares into investment boxes.



Mr. GRAY. But you not only bought in the open market, you sold in the open market, did you not?

Mr. MITCHELL. I doubt if we did very much. There might have been times when we did when we found a demand for it.

Mr. GRAY. When the market is overloaded the price goes down, does it not?

Mr. MITCHELL. It may not always. It may be there are speculative holders who are prepared to hold their stocks as far as that is concerned.

Mr. GRAY. But when the market is overloaded, whether it be a commodity market or whether it be a stock market, and the supply is greater than the demand, the natural tendency is that the price goes down; isn't that so?

Mr. MITCHELL. Yes; but there is a difference between a commodity market and a security market in a sense, Mr. Gray.

Mr. GRAY. Well, that is true of a security market, is it not?

Mr. MITCHELL. It is not so much the overload generally; it is the overload of speculatively held shares.

Mr. GRAY. Well then it requires that helping hand as you say?

Mr. MITCHELL. Quite so.

Mr. GRAY. To take care of that overloaded market?

Mr. MITCHELL. Quite so.

Mr. GRAY. It requires somebody to come in and buy and see that the price does not drop too low, isn't it so?

Mr. MITCHELL. It is not the question of seeing that the stock does not drop too low.

Mr. GRAY. That is not the purpose?

Mr. MITCHELL. No.

Mr. GRAY. By the way, did you know that there were two pools in Anaconda in the early part of 1929?

Mr. MITCHELL. Only knew it from hearsay, Mr. Gray.

Mr. GRAY. Mr. Percy Rockefeller is on your board?

Mr. MITCHELL. Mr. Percy Rockefeller does not tell me all he knows.

Mr. GRAY. I did not ask you that. Mr. Percy Rockefeller is on your board?

Mr. MITCHELL. Mr. Percy Rockefeller is on our board; yes.

Mr. GRAY. Did you know that he was in two pools operating in Anaconda during the spring?

Mr. MITCHELL. I did not.

Mr. GRAY. Mr. J. A. Stillman is on your board?

Mr. MITCHELL. Yes.

Mr. GRAY. Did you know that he was in two pools?

Mr. MITCHELL. I did not.

Mr. GRAY. What position has Mr. Lee Olwell in your concern?

Mr. MITCHELL. Mr. Lee Olwell is a vice president of the National City Co.

Mr. GRAY. Did you know that he was interested in either one of these pools?

Mr. MITCHELL. No; I did not.

Mr. GRAY. You did not?

Mr. MITCHELL. I did not, and I would be surprised to know that he was.

Mr. GRAY. Mr. C. T. Fisher connected with your company at all?

Mr. MITCHELL. No.

Mr. GRAY. He is connected with the Anaconda as a member of the board, is he?

Mr. MITCHELL. He is a member of the board of the Anaconda Copper Mining Co.

Mr. GRAY. Mr. John D. Ryan is chairman of the board of Anaconda, is he not?

Mr. MITCHELL. I have already stated so.

Mr. GRAY. So that the committee will not get any wrong impression, Mr. Ryan's name does not appear in any of these pools. Mr. Ryan is also on the board of the National City Co., is he?

Mr. MITCHELL. He is not; no, sir.

Mr. GRAY. Or on the board of the bank? Which?

Mr. MITCHELL. Mr. Ryan has never been on the board of the National City Co. Mr. Ryan is a member of the board of the National City Bank.

Mr. GRAY. Of the National City Bank?

Mr. MITCHELL. Yes.

Mr. GRAY. Now, do you happen to know—what was the price, Mr. Mitchell, when you started to buy it?

Senator GLASS. Wait, Mr. Gray, if I may ask a question.

Mr. GRAY. Certainly. Go ahead, Senator.

Senator GLASS. Mr. Mitchell said he had no knowledge of those pools, although he was the managing chairman of the bank, but these gentlemen, Messrs. Rockefeller and Stillman, and the other gentlemen, they knew that they were in this pool, did they not?

Mr. MITCHELL. I assume that they did, Senator Glass.

Senator GLASS. Well, so do I. Then do you think it is within the precincts of propriety, so to speak, for a man to be in a pool of that sort and at the same time a director in a bank that is buying and selling stock in the pool?

Mr. MITCHELL. Well, if I gathered the dates correctly of those pool operations, Senator Glass, they were given by Mr. Gray—

Mr. GRAY (interposing). They were given exactly.

Mr. MITCHELL (continuing). They finished their pool operations on May 29.

Mr. GRAY. One pool started in January—I will give you the exact dates—and ended in March, and the other started immediately upon the ending of the first one. The other one started March 19, and I believe ran until some time in May—May 24.

Mr. MITCHELL. So that you see—

Senator GLASS (interposing). No; the dates are not involved in what I am trying to adduce, no matter when it is done. Do you think it is proper for a director in a bank to belong to a pool in a stock in which the bank is operating? How could that man serve his bank and serve his pool at the same time?

Mr. MITCHELL. Well, I think that you have got a very delicate—

Senator GLASS (interposing). He would be serving two masters at the same time, would he not?

Mr. MITCHELL. He would if he told everybody what he knew.

Senator GLASS. Well, he would in any event; it would be worse if he did not tell everybody what he knew: if he just told a few people it would be worse still, would it not?

Mr. MITCHELL. I do not like to pass on a question of the other fellow's conduct. I never knew, Senator, that any one of those men were in any pool.

Senator GLASS. Well, I am not reproaching anybody; I just want to get different people's ideas of the sense of propriety.

Mr. MITCHELL. I can reproach myself. If you asked me now, whether in the light of experience, whether I think that an operation of this kind is a good thing for a bank or a bank affiliate, I tell you frankly I do not.

Senator GLASS. Well, do you think it is a proper thing?

Mr. MITCHELL. No; I do not, Senator.

Senator GLASS. Well, that is what I wanted to ask you.

Senator COUZENS. When you were discussing the purchasing of all this Anaconda Co. stock, Mr. Rockefeller and Mr. Ryan, and the other stockholders in the Anaconda, were present, were they not?

Mr. MITCHELL. It was never discussed in the bank meetings, Senator Couzens.

Senator COUZENS. Where was the decision reached to go out and buy up all this stock?

Mr. MITCHELL. It was reached in the councils of the operating officials of the National City Co.

Senator COUZENS. And none of the directors knew anything about it?

Mr. MITCHELL. Well, they knew it when we decided to go ahead, Senator Couzens, yes; and they knew when we were going ahead. They knew when we made our original investment purchase of 50,000 shares, and they knew that it was being continued on running between 50,000 and 100,000 shares, until we came to that point where we decided to make an offering to the public. I think our directors knew about it, unquestionably, at that time, because we always report those things. But there would not be anything on the minute books to show it.

Senator COUZENS. So that the directors of Anaconda Co. and the officers of the Anaconda Co. had inside information as to the operation of the National City Co. through the bank directorship?

Mr. MITCHELL. You mean Mr. Ryan?

Senator COUZENS. Yes; and Mr. Rockefeller.

Mr. MITCHELL. Yes; Mr. Ryan knew all the time what we were doing, naturally.

Senator COUZENS. Yes.

Mr. MITCHELL. And Mr. Rockefeller, I would not be so sure that he knew about it, because Mr. Rockefeller was more or less irregular in his attendance at meetings. I could not honestly swear that he knew about the operations, until it was on.

Mr. GRAY. Do you know the range of prices in Anaconda in the spring before you took hold of the matter?

Mr. MITCHELL. I followed Anaconda—

Mr. GRAY (interposing). Very closely, I suppose.

Mr. MITCHELL (continuing). Very closely; yes, sir.

Mr. GRAY. Do you know that during the operation of the pool they drove it from 116 up to 163?

Mr. MITCHELL. Well, I do not know. I never knew anything about the pool operations.

Mr. GRAY. Well, I will put it this way to you: Did you know between the middle of January, 1929, and the middle of March, 1929, that the price rose from 116 to 163?

Mr. MITCHELL. I know that the price did go up very sharply, and I knew at those prices they were not prepared—we had no inducement to offer the shares to our investors.

Mr. GRAY. I speak of the pool just so as to familiarize the committee with the dates. That after the first pool stopped on the 19th of March, the second pool immediately started, that the price immediately went from 163 and a fraction to 174 and a fraction.

Mr. MITCHELL. You see, you could not buy any, because——

Mr. GRAY (interposing). Did you know, between the middle of March, and——

Mr. MITCHELL (interposing). I have a record of the fluctuations here.

Mr. GRAY. Is that correct, it went from 163 and a fraction to 174 and a fraction?

Mr. MITCHELL. I do not know by the exact dates, Mr. Gray, but I know that there was a difference between the high and the low in the month of March of some 34 points.

Mr. GRAY. Yes. And did you know that from then until the first of June——

Mr. MITCHELL (interposing). But at that time, if I may say——

Mr. GRAY (interposing). Go ahead.

Mr. MITCHELL. I remember that there were rights given; a large amount of the funded debt was to be retired in the summer, and rights to purchase Anaconda stock were given to the shareholders.

Mr. GRAY. That money was used to retire the funded debt?

Mr. MITCHELL. At that time each share was given the right to purchase two shares at \$55 a share. Naturally that brought the price materially down. But there was a movement on the outside for the stock at the same time. So that you had——

Mr. GRAY (interposing). At the date you are talking about, June 1, when you decided to go into the market, did you know that the price was down around 103?

Mr. MITCHELL. I see it here.

Mr. GRAY. Now, then, you didn't hold long; your active operations started on the 6th day of August, did they not?

Mr. MITCHELL. That is when we offered the stock, yes.

Mr. GRAY. What was the price on the 6th day of August, when you started to offer the stock?

Mr. MITCHELL. My recollection is it was about——

Mr. GRAY (interposing). 120?

Mr. MITCHELL. No; on that date it was 117 $\frac{7}{8}$  low, and 122 high.

Mr. GRAY. In the meanwhile you had been buying stock?

Mr. MITCHELL. I haven't a record of any purchase——

Mr. GRAY. (interposing). Then I will come to that in a moment. But you had been buying, had you not?

Mr. MITCHELL. We had—well, put it this way——

Mr. GRAY. (interposing). Just tell me, had you been buying, Mr. Mitchell? That is all I want to know now.

Mr. MITCHELL. A very small amount, apparently. We increased our holdings materially through the conversion of Greene-Cananea

stock, which we had; and the conversion of Andes stock, which we had, both of which conversions took place in the month of July; and through the exercise of rights, the rights coming off in July. Those items alone gave us about 112,000 shares—well, there was, apparently, bought in the open market in July in anticipation, 40,000 shares. But we acquired, in these other ways, some one hundred and odd thousand shares.

MR. GRAY. I will get to those figures in a minute. Now from the time you took hold of it on August 6, you sold through your salesmen, did you not?

MR. MITCHELL. Yes, sir.

MR. GRAY. And you stopped your operations on October 1?

MR. MITCHELL. Approximately that.

MR. GRAY. And in the meanwhile you were buying and selling on the market?

MR. MITCHELL. I don't think we were selling much.

MR. GRAY. You were buying in the market?

MR. MITCHELL. We were buying a great deal in the market.

MR. GRAY. The market went to what, when you were buying; what was the high?

MR. MITCHELL. Let me see. The high during the first week in August was  $122\frac{1}{2}$ . The high in the second week was  $123\frac{1}{8}$ . The high in the third week was  $122\frac{1}{2}$ . The high during the next week was 129. The high during the next week was 133. The high during the next week was  $126\frac{1}{8}$ . The high during the next week was  $133\frac{1}{8}$ .

MR. GRAY. Now, what week was that high of  $133\frac{1}{8}$ ?

MR. MITCHELL. That was on September 9.

MR. GRAY. On September 9?

MR. MITCHELL. Yes, sir.

MR. GRAY. From then on the price dropped, did it not?

MR. MITCHELL. Yes. You see it had been up there only three or four days.

MR. GRAY. But it dropped from then on, did it not?

MR. MITCHELL. Yes, sir.

MR. GRAY. And on October 1, when you quit, it was back to 114 again?

MR. MITCHELL. 114 low, 117 high.

MR. GRAY. That was the range?

MR. MITCHELL. The high on that day was practically the same as the low on the day when we started.

Senator WALCOTT. What was your high in March—the previous March?

MR. MITCHELL. That is the time when you quoted a figure here?

Senator WALCOTT. I did not catch it.

MR. GRAY.  $174\frac{3}{4}$ .

MR. MITCHELL.  $174\frac{3}{4}$ .

MR. GRAY. It reached  $174\frac{3}{4}$  on the 22d of March.

Senator GLASS. Mr. Mitchell, ordinarily what factors enter into these wide advancements in the value of stock on the market?

MR. MITCHELL. Well, Senator Glass—

Senator GLASS (interposing). The material factors? In other words, did the development of the Anaconda mine and the dividend capabilities of the company increase in accord with the sharp ad-

vancement of these stocks, or was it due to what is commonly called a manipulation of the market?

Mr. MITCHELL. No, Senator Glass; with respect to copper shares, the fluctuation there comes almost entirely in sympathy with two factors: One, the price of copper, and, two, the volume of the consumption of copper.

Senator GLASS. Well, do you think that the average person—I do not mean you, I do not mean men of observation and experience—but the ordinary person who buys Anaconda copper on the market, knows anything about the price of copper or the supply of copper? Do you think he ever stops to inquire into those things?

Mr. MITCHELL. He often stops to inquire, but he forgets them very quickly.

Senator GLASS. You say he often stops to inquire. Do you think the ordinary purchaser of stock that stands at a ticker down in my town, or in a town away from New York, knows anything about the productive capacity of the copper mines.

Mr. MITCHELL. Yes, sir.

Senator GLASS. I do not think he does.

Mr. MITCHELL. But it all has to do, as I say, with those two factors of the price of copper. I think, roughly speaking, if I recall the figures, a difference of a cent in the price of copper means a difference of \$1.25 per share in the Anaconda shares. I think Mr. Ryan can, perhaps, quote those figures a good deal better than I, but I just want to show how it fluctuates with the price, just as the value of farm lands fluctuates with the value of the price of wheat or the demand for wheat. It is the same proposition. There is a little more lag in the farm lands. In the copper shares it is quite prominent; it is quite marked. And that particular advance in the price of shares took place during the time we were operating. It took place, if I recall rightly, because of very heavy consumption during the period of a week or two there. It was one of the heaviest periods of consumption that the copper business has ever seen.

Senator COUZENS. Is the National City Co. still dealing in stocks?

Mr. MITCHELL. No; we are not, Senator.

Senator COUZENS. How long since you have been dealing in stocks?

Mr. MITCHELL. Are you speaking of the past or the future?

Senator COUZENS. How long since you discontinued, I say.

Mr. MITCHELL. Oh, we have not offered any stocks since 1929.

Senator GLASS. Well, nobody is dealing in any stocks now.

Mr. MITCHELL. A good many people are dealing in them; yes.

Senator COUZENS. Did you create any good will by going into the sale of stocks?

Mr. MITCHELL. No; we created ill will, Senator.

Senator COUZENS. I suspected that from the list you are giving us.

Senator GOLDSBOROUGH. Mr. Mitchell, I understood you to say you had, on August 1, 100,000 shares, and an option on 200,000 shares.

Mr. MITCHELL. That is right, Senator.

Senator GOLDSBOROUGH. Making 300,000 shares?

Mr. MITCHELL. Yes, sir.

Senator GOLDSBOROUGH. When the price ranged from 120 to 135; and that you closed out all that stock in September or October.

Mr. MITCHELL. We closed the account on the second of October, I think, Senator.

Senator GOLDSBOROUGH. And you closed it out at prices ranging from 120 to 135; is that correct?

Mr. MITCHELL. Yes. I should say a little wider than that, Senator. For instance, there is a low of 117.

Senator GLASS. 138, was it not?

Mr. MITCHELL. No; 133 $\frac{1}{8}$ .

Senator GOLDSBOROUGH. Ten days after you had closed it out, what was that stock, per share; that is, November 1?

Mr. MITCHELL. There we were in the panic.

Senator GOLDSBOROUGH. I understand, and that is the reason I am asking you.

Mr. MITCHELL. I can not tell you what those prices were, but I will tell you that we still have the stock that we had then.

Senator GOLDSBOROUGH. Well, you have got 60,000 shares, I understood you to say?

Mr. MITCHELL. Yes, sir.

Senator GOLDSBOROUGH. You had originally 300,000 shares, so you must have sold 240,000 shares.

Mr. MITCHELL. I can give you those figures. In October the stock dropped to a low—No; this is November. The price in the panic, in those few days, those first few days, went as low as 70 $\frac{1}{4}$ . In November and December it was a little over 90. The following year the price went from a high of 80, gradually dropping through the year until it closed the end of the year at 37 $\frac{3}{4}$ .

Senator GOLDSBOROUGH. What is it to-day?

Mr. MITCHELL. About 4.

Mr. GRAY. Three and one-half at 12 o'clock.

Senator GOLDSBOROUGH. So you closed out at from 120 to 135, and the stock to-day has fallen to about 4?

Mr. MITCHELL. Yes, sir.

Senator GLASS. Well, Mr. Mitchell, why should there have been, among intelligent people who knew what they were about, a panic in Anaconda stock?

Mr. MITCHELL. Well, there was no panic in Anaconda stock, any more than anything else.

Senator GLASS. Well, that is a specific stock. Why should there have been a panic in Anaconda stock, among intelligent people who knew what they were doing when they were buying Anaconda stock? The mines had not been destroyed, had they?

Mr. MITCHELL. No; but the—

Senator GLASS [interposing]. The earning capacity of the company had not been wrecked, had it?

Mr. MITCHELL. No; but the price of the commodity itself went very rapidly down, Senator. It went down—

Senator GLASS [interposing]. But it did not go down that sharply in the first few days of the panic?

Mr. MITCHELL. No; for several months it stood at 18 cents.

Senator GLASS. Mr. Mitchell, does not that show that the people do not invest in the stock market, but simply gamble on the stock market?

Mr. MITCHELL. Well, that is the place where they buy their securities for investment, very largely.

Senator GLASS. Of course, investors buy them there. The people—

Mr. MITCHELL [interposing]. There is a great deal of speculation going on; a mass of speculation going on all the time.

Senator GLASS. Well, that is the function of this committee and the other committee that we appointed, to find out the difference between legitimate investment and feverish gambling in stocks.

Mr. MITCHELL. I remember making a remark to you at some previous investigation, Senator—or maybe it was to Senator Walcott, that an investment is often made by a man in speculating, and then, finding he has a loss, and unwilling to hold his securities, so that the speculator often develops into the investor.

Senator TOWNSEND (presiding). Will you proceed, Mr. Gray?

Mr. GRAY. As long as you started to give us your holdings, I want to make it clear to the committee. The first stock of the Anaconda Co. that you got from the United Metals Selling Co., on March 1, 1928; is that correct?

Mr. MITCHELL. That is correct.

Mr. GRAY. And Senator Couzens asked you at what price. Do you know?

Mr. MITCHELL. At \$65 a share.

Mr. GRAY. \$65 a share?

Mr. MITCHELL. Yes, sir.

Mr. GRAY. Was that, relatively, the market price at that time?

Mr. MITCHELL. Yes; my recollection is it was very close; within three or four points of the market.

Mr. GRAY. Now, between then and August 6, 1929, a year and a few months after you started your campaign, your records show—I want to know if it is correct—that you got an additional 62,400 shares of Anaconda stock; is that correct?

Mr. MITCHELL. Approximately.

Mr. GRAY. And that you then got from that time on of Greencananea, Andes, and Chile, converted into Anaconda, which aggregated about 127,000 shares.

Mr. MITCHELL. How much?

Mr. GRAY. About 127,000 shares.

Mr. MITCHELL. That is correct.

Mr. GRAY. And that you then, through your backward and forward trading account, added a net of 251,081 shares, making a total of 439,481 shares, less your sales in the market of 288,707 shares, leaving you in a net position of about 210,774 shares on August 6. Does that properly present the picture? Down to August 6, please, now.

Mr. MITCHELL. That is approximately correct. My figures are slightly lower than that, but that is near enough.

Mr. GRAY. Those four hundred and thirty-nine thousand and odd shares that you bought cost you forty-seven million four hundred and eighty-nine thousand and odd dollars; is that right?

Mr. MITCHELL. I am sure I do not know.

Mr. GRAY. You undertook to give us this picture of it, or I would not have asked you about it. Is that approximately correct?

Mr. MITCHELL. I don't know at all. That is a figure that does not mean anything.



Mr. GRAY. I ask you if your operating down to that time, and if you did not have in that time a net profit of \$2,048,478?

Mr. MITCHELL. I think that is right.

Mr. GRAY. Now, then, we started on August 6 with that account. I ask you whether between August 7, 1929, and October 1, 1929, when you quit, you did not buy in the open market an additional 1,178,793 shares at a cost of \$145,834,939.56?

Mr. MITCHELL. I do not know whether we did or not. I do not know what we paid for it, and it does not have any meaning.

Mr. GRAY. Whether it has any meaning or not, I would like to know whether that is the number of shares.

Mr. MITCHELL. Well, that is an unfair kind of a question. What difference does it make when you are dealing—

Mr. GRAY. I am not arguing with you. Will you tell me that?

Mr. MITCHELL. I do not know. I can not answer.

Mr. GRAY. I will have to put Mr. Baker on, then, or some other person. We took it from your books.

Mr. MITCHELL. If you figured it—

Mr. GRAY (interposing). During that time, with your inventory of two hundred and ten thousand and odd shares, which cost you around \$21,000,000, you added to a total of over 3,000,000 shares, at a total cost to you of \$167,526,904.55. Would you say that was approximately correct?

Mr. MITCHELL. I would not have the slightest idea.

Mr. GRAY. You would not have the slightest idea?

Mr. MITCHELL. That is not a business question.

Mr. GRAY. Do you know whether you sold, out of that lot 1,315,830 shares at \$163,000,000, leaving you 73,737 shares that cost you then \$4,506,304.75, averaging you \$7.60 a share?

Mr. MITCHELL. I do not know anything about that, but I know that on the 6th of August we had 207,806 shares.

Mr. GRAY. Knowing that, I thought you would know the other thing.

Mr. MITCHELL. The highest number of shares we ever held in our inventory after that was 240,000 shares before the exercise of an option.

Senator GLASS. What does he mean by saying he bought 1,000,000 shares?

Mr. GRAY. A million and three hundred and eighty-nine thousand altogether, at \$167,000,000.

Senator GOLDSBOROUGH. Mr. Chairman, may I put the story this way to see if I understand it: 330,000 shares at the average price would cost the public \$39,000,000. The price to-day of that stock at \$4 a share would be \$1,200,000. That would be a loss to the public of \$37,800,000. Is that correct, assuming that the cost that I have given you per share is correct?

Mr. MITCHELL. I should think it would be a loss to whoever held it.

Senator GOLDSBOROUGH. A loss to whoever held it—a loss of \$37,800,000.

Mr. MITCHELL. To whoever held it. The same thing applies to whoever held any kind of stocks. If you have any, you know.

Senator GOLDSBOROUGH. Fortunately, I have not had any money.

Mr. MITCHELL. If you held farm lands, you know the same thing happened again. There is nothing anybody held in the summer of

1929 and still holds in the way of industrial stocks and farm products or farm lands or real estate of any kind that does not show just the same record.

Senator GOLDSBOROUGH. I think you are right.

Senator GLASS. You do not mean to say that real estate is within a thousand miles of the turnover of stock?

Mr. MITCHELL. Could you sell it, Senator? Can you sell farm lands to-day in many places in this country?

Senator GLASS. Of course you can not; but I am saying it has not the rapidity of turnover.

Mr. MITCHELL. Oh, no; not the rapidity of turnover.

Senator GLASS. Not within a thousand miles.

Mr. MITCHELL. No.

Senator GLASS. You can not discuss it in the same breath. You are trying to make it clear now—and I am not trying to be offensive—you are trying to make it clear that the operations in real estate are as speculative as operations in stock.

Mr. MITCHELL. No; I did not mean that. I did not mean to create that impression, Senator Glass. What I mean is that there has been a depreciation in all classes of investments.

Senator GLASS. Yes.

Senator CAREY. Mr. Mitchell, can you tell me how many shares of this stock were sold by your salesmen throughout the country?

Mr. MITCHELL. I should say practically all of this stock that we bought was sold, not all over the country, but including New York and the country. Of course, we had a great many correspondents who at the same time were selling, so it was not all sold through our salesmen.

Senator CAREY. It was sold through them?

Mr. MITCHELL. Yes; it was sold largely to distributing agencies and through our own distributing facilities in the country.

Senator CAREY. Do you know the average selling price?

Mr. MITCHELL. The low was 117 and the high 133—

Mr. GRAY (interposing). I can give you that.

Mr. MITCHELL. In looking over these figures, I should say, roughly, 125 or so.

At the time was started, and, in fact, two months before, we had figured that this was a proper stock for investment when bought between 120 and 135; and this price where we would start this operation to pass it to our investors had been in our minds for a month or six weeks before we made that offer.

Senator CAREY. The stock was recommended?

Mr. MITCHELL. Yes, sir.

Senator COUZENS. It would have been well to have kept it there.

Mr. MITCHELL. Senator Glass asked what made these fluctuations in the market. One of our best-known agencies for analysis is the Standard Trade & Securities Service, the Standard Statistics Co. (Inc.), it is called. Now here is a sheet of theirs dated August 26, 1929. It is headed: "What are the 50 best common stocks, irrespective of price?" And I take the liberty of just reading one short paragraph. (Reading:)

This service presents herewith tabulations representing the composite selection of 11 departments and divisional chiefs in the analytical and advisory services of the Standard Statistics Co. in answer to this question. Each man was asked to select 50 stocks which, on the basis of (1) past record, (2) future

prospects, (3) position in its industry, and (4) record of the industry itself as regards stability of earnings and rate of growth, he considered the outstanding stocks, irrespective of price, for long-term holding.

The lists of stock as submitted by these men contained the names of 153 individual securities, but there was unanimous agreement upon only 11 issues, and one of those issues was Anaconda.

Senator TOWNSEND (presiding). All right, Mr. Gray.

Mr. GRAY. I think we should correct on the record, probably, a figure that arose as a result of Senator Goldsborough's question, of the actual shares sold to the public, 1,338,000 shares.

Senator GOLDSBOROUGH. I was only taking that as an illustration.

Mr. GRAY. Instead of the \$39,000,000 mentioned, if the stock went from an average of 125 down to 5, it means that on the shares sold to the public the public lost \$120 a share, which approximates close to \$160,000,000.

Mr. MITCHELL. You do not hold us responsible for that?

Mr. GRAY. I am just putting the facts on the record, Mr. Mitchell. Senator TOWNSEND (presiding). Proceed, Mr. Gray.

Mr. GRAY. Mr. Mitchell, you seemed to have looked up the quantity you had. You were in error, then, before this committee, I believe—yes, a committee of this committee, or a subcommittee of this committee—in February of 1931, in talking of Anaconda, on page 308, if you have it?

Mr. MITCHELL. Yes; I have it.

Mr. GRAY. You said, in response to a question by Senator Norbeck:

Senator NORBECK. Did it accumulate a considerable quantity of Anaconda Copper on its own account?

Mr. MITCHELL. I would not say a considerable quantity.

Senator NORBECK. How much would you say?

Mr. MITCHELL. I would have to go into the records. I should say that the largest amount that it ever had, perhaps a year and a half ago, ran up to 90,000 shares; something of that sort; ninety or a hundred thousand shares.

You want to correct that, do you?

Mr. MITCHELL. Not taking this literally, I do not think it makes any difference. But this was for our investment, if I remember rightly.

Mr. GRAY. That is what you were talking about then?

Mr. MITCHELL. That is what we were talking about then. I am surprised I got as close to it as I did.

Mr. GRAY. Now, you took over 100,000 shares from the United Metals Selling Co., the Anaconda subsidiary, in August, 1929?

Mr. MITCHELL. Yes.

Mr. GRAY. At what price? Maybe I can help you. One hundred and twenty, less dividend—

Mr. MITCHELL. That is correct.

Mr. GRAY. It cost you 113. When did you get that option?

Mr. MITCHELL. The latter part of June, or the 1st of July.

Mr. GRAY. That is when you contemplated going into that?

Mr. MITCHELL. Yes, sir.

Mr. GRAY. So you had 210,000, and then accumulated this, and the rest you got in the market?

Mr. MITCHELL. That is so.

Mr. GRAY. Was the National City Co. itself as a company interested in a pool in Greene-Cananea at any time?

Mr. MITCHELL. No; not in a pool. I should say, in December, 1928, at a time when the Anaconda Copper Co. itself held only about

12 per cent of the stock of the Greene-Cananea. Mr. Ryan came to me and showed me an analysis of the worth of Greene-Cananea, and convinced me that that was one of the lowest priced copper stocks in the market at the time, and for our investment account—the same investment account of which I spoke—we decided that we would be glad to buy some Greene-Cananea stock; and Mr. Ryan and the National City Co., for whom I act, purchased jointly some Greene-Cananea stock.

Senator COUZENS. From whom?

Mr. MITCHELL. From the market. That was in December, and my recollection is that that account was closed out in three or four weeks. We acquired some Greene-Cananea stock as a result of it, and we held that Greene-Cananea stock, and finally converted it in July, 1929, which formed a part of this general account.

Mr. GRAY. Mr. Mitchell, that account was known as the Greene copper stock in the account of Hornblower & Weeks, was it not?

Mr. MITCHELL. I have no knowledge of that. Mr. Ryan took care of buying the stock, and I do not know where he bought it, or anything else.

Mr. GRAY. Do you know what profit he made in that deal?

Mr. MITCHELL. Why, the profit came out of any Greene-Cananea stock.

Mr. GRAY. From the conversion?

Mr. MITCHELL. Well, we bought Greene-Cananea stock——

Mr. GRAY (interposing). Yes.

Mr. MITCHELL (continuing). Carried Greene-Cananea stock in our portfolio.

Mr. GRAY. Yes.

Mr. MITCHELL. And some six months after that there was a conversion.

Mr. GRAY. You kept buying until what time?

Mr. MITCHELL. I don't know.

Mr. GRAY (interposing). If you don't know, I will ask Mr. Ryan.

Mr. MITCHELL. He knows; he handled it entirely.

Mr. GRAY. You went into the Chile copper deal?

Mr. MITCHELL. Yes, sir.

Mr. GRAY. Did you know beforehand, when you went into the Chile and the Greene-Cananea, that the stocks were going to be converted?

Mr. MITCHELL. No; they don't go in the same category at all, Mr. Gray, if you will pardon my suggesting it.

Mr. GRAY. Yes.

Mr. MITCHELL. At the time of the Greene-Cananea deal, so far as I knew, or anybody else knew, there was no possibility of making any exchange of shares for Anaconda.

Mr. GRAY. You were in the deal with others on the board on Anaconda?

Mr. MITCHELL. Yes.

Mr. GRAY. Mr. Ryan had no idea that there was to be a conversion?

Mr. MITCHELL. No; I honestly do not think he did. You can ask him.

Mr. GRAY. Now, you went into Chile?

Mr. MITCHELL. Yes; the Chile was entirely different. If you care to have me, I will explain that.

MR. GRAY. That is what you have been doing, so you might go ahead.

MR. MITCHELL. I assumed that is what the Senators wanted. If there is any objection, such as you indicate by the tone of your voice, I will not explain.

MR. GRAY. I would like to have you answer first, and then explain.

MR. MITCHELL. I am doing it all at once, and am going to do it that way as long as the committee permits me to.

MR. GRAY. Go ahead.

MR. MITCHELL. The Chile deal was this—and, again, Mr. Ryan can tell you more than I can——

Senator COUZENS (interposing). Let us leave it to Mr. Ryan.

MR. GRAY. I intended to, but he states he knows, and so I asked him about it.

Senator GLASS. Let him go ahead.

MR. MITCHELL. Mr. Ryan came to me in December and told me that he and the Guggenheims, who were the largest holders of stock (Anaconda having acquired 50 per cent, the Guggenheims holding the largest amount of stock of the still outstanding stocks of Chile), had been talking together on a possible exchange of Chile into Anaconda stock. Mr. Ryan told me that they had not gotten together, but he felt that they were getting close; that both he and Mr. Guggenheim—Mr. Daniel Guggenheim—were exercised by the fact that there were a differential, obviously, between the range that they might get together, and the then existent market; that they were anxious to close that differential up so as to make the deal possible, and so that if the deal became possible there would not be a running out by Anaconda stockholders fearing that the deal was not a proper one for them with an exchange of Chile that was out of line; and the Chile stockholders would not be jumping in and selling their Anaconda because of the profit that lay in there. They set somewhere above that existing low differential as a point where they could probably get together.

Now they wanted to go in and start to buy Chile, and we agreed to go along with those two interests, Mr. Ryan and Mr. Daniel and Mr. Harry Guggenheim. And Mr. Ryan was to handle the account. We did go into it. There was a substantial purchase of Chile. How the account was handled I do not know. It was Mr. Ryan's handling of the account that closed the gap, and I think it was about 10 days after that time that they finally got together and announced a conversion.

Senator COUZENS. So you did know there was to be a conversion?

MR. MITCHELL. Oh, I knew they were trying to get together, and had been for six months, but never got anywhere. But at that time they were getting close to it.

Senator COUZENS. So after that long speech we get an answer to Mr. Gray's question, that you knew there was to be a conversion.

MR. MITCHELL. We knew they were getting close to a point where it was hoped there might be an exchange offering. There was an exchange offering, Mr. Couzens. As a matter of fact, we ultimately got 10,000 shares of Anaconda stock, which represented an exchange of Chile stock, which Mr. Ryan had been handling, and it came to us at a low price, the difference between that price and the market price being our portion of the profit that there was in the transaction.

Mr. GRAY. How much did you say you got; 10,000 shares?

Mr. MITCHELL. Ten thousand shares.

Mr. GRAY. Wasn't it 81,103 shares?

Mr. MITCHELL. No, sir; it was 10,000.

Mr. GRAY. All right.

Senator WALCOTT. Do you remember about the average price of that?

Senator FLETCHER. What did you pay for the Chile, Mr. Mitchell?

Mr. MITCHELL. I do not know. We had nothing to do with the buying of it. The exchange—

Senator FLETCHER. No; but when you first went in and bought Chile. You said you bought stock of Chile. What did you pay?

Mr. MITCHELL. Mr. Ryan handled the account. We had a joint account with him and with Mr. Guggenheim. Mr. Ryan bought all of the stock, and we ultimately got 10,000 shares of stock.

Mr. GRAY. That is, after the division?

Mr. MITCHELL. That was our portion of it.

Mr. GRAY. National City had a third interest in that pool?

Mr. MITCHELL. A third interest.

Mr. GRAY. Mr. Guggenheim had a third interest?

Mr. MITCHELL. Yes, sir.

Mr. GRAY. Mr. Guggenheim had what official position in the Chile Copper Co.?

Mr. MITCHELL. I think he had no position.

Mr. GRAY. He had a very large ownership?

Mr. MITCHELL. He had a very large ownership.

Mr. GRAY. And Mr. Ryan's interest you knew was divided between him and Mr. Kelley and Mr. Thornton—you knew that?

Mr. MITCHELL. I did not know that.

Mr. GRAY. All right; did that joint account of Chile Copper after it was converted, and before it was converted, get into the National City's books in any way, the National City Co.'s books?

Mr. MITCHELL. It got in only in this way, that Mr. Ryan, I recall, asked us at one time to carry some stock, and he had that stock delivered to us by his broker in blocks. I could not tell you exactly how much we carried, but I know that there was an account there.

Mr. GRAY. It was carried on the joint account Chile Copper Co., was it not?

Mr. MITCHELL. I can not give you that.

Mr. GRAY. Does the National City Co. do a banking business?

Mr. MITCHELL. No.

Mr. GRAY. Do they loan money—not the bank, the company?

Mr. MITCHELL. Well, I would hesitate to say no. We do not loan money as a regular business, but, of course, there are many transactions in the business where you do loan it, just the same as we borrow money.

Mr. GRAY. Do you do a banking business?

Mr. MITCHELL. Not a commercial banking business; no, sir.

Mr. GRAY. They do not?

Mr. MITCHELL. No.

Mr. GRAY. Do they do any brokerage business?

Mr. MITCHELL. No.

Mr. GRAY. Will you tell me why in the joint account of Green Cananea and in the joint account of Chile, in which you yourselves

had an interest in the pool, there were items of 6 per cent commission and interest charges that appeared?

Mr. MITCHELL. Why, of course.

Mr. GRAY. All right; do, please.

Mr. MITCHELL. The interest charges, 6 per cent interest, was the going rate, and we took this stock up for the joint account——

Mr. GRAY (interposing). From Hornblower & Weeks?

Mr. MITCHELL. I do not know from whom. But on Mr. Ryan's orders there was delivered to us by the joint account so much stock, and we paid for it, and we carried it and we charged the joint account 6 per cent.

Mr. GRAY. Now, I suppose if I inquired of you as to any of the transactions in that account, that is, it went through that account as it appeared on the books of the National City, would you know about it?

Mr. MITCHELL. There were no transactions out, except that on the final closing of the account Mr. Ryan caused us to deliver some of this stock that we were carrying, if my recollection serves me, to Hornblower & Weeks, and they took that stock and paid for it in cash, and he, Mr. Ryan, instructed us to pay to Mr. Daniel Guggenheim or Mr. Harry Guggenheim, or both, the proceeds of that stock which had been sold. In other words, their 10,000 shares, I understand, was sold by Hornblower & Weeks, and that clearance happened to come through us, because we were carrying some stock.

Mr. GRAY. That is not what I referred to, but as long as you mentioned the profits, the profits were about \$1,250,000 for that deal for the various parties interested, were they not?

Mr. MITCHELL. Well, the profit, I think, that went to Guggenheim was about \$400,000. Of course, any profit that we had was represented in the price——

Mr. GRAY (interposing). By the stock?

Mr. MITCHELL. Of those 10,000 shares of stock that we had.

Mr. GRAY. And that went into your sales account?

Mr. MITCHELL. No. At that time we did not have a sales account. That went into our investment account.

Mr. GRAY. And ultimately into your sales account of Anaconda?

Mr. MITCHELL. Yes; and ultimately back again into the investment.

Mr. GRAY. The transaction I meant, however, was the delivery to Block, Maloney & Co. on the 1st of February of 12,500 shares at 122½; on the 6th of February, of 12,500 at 125; on the 13th of February, of 12,500 at 127½; and on the 14th of February, 12,500 at 130.

What do you know about that delivery, anything?

Mr. MITCHELL. Nothing. But I will say this, that no deliveries were made by us from that account except under instructions from Mr. Ryan.

Mr. GRAY. So that, if that went into the Anaconda pool that was operating at that time, you would not know anything about it?

Mr. MITCHELL. Absolutely nothing.

Senator COUZENS. Will you tell me just under what circumstances the National City will loan money? You said they loaned money. Kind of give me a case.

Mr. MITCHELL. There was a case there where we were carrying some securities for a joint account, and we naturally would charge

interest on that and charge our partners with their portion of the interest.

Senator COUZENS. Do you have many accounts like that?

Mr. MITCHELL. We would have that kind of an account in bonds very often, Senator Couzens, very often.

Mr. GRAY. You put through what you call a high-pressure campaign in selling this stock?

Mr. MITCHELL. Not what I call a high-pressure campaign, no, sir.

Mr. GRAY. Not what you call it; what a good many people call a high-pressure campaign. You kept sending flashes over the wire all the time to your salesmen?

Mr. MITCHELL. Of course, in any sales organization, I do not care whether you are selling products or securities, a sales organization has a direction, and the direction is continually keeping in touch with the salesmen, and they are continually advising them with regard to what they have to sell and its merits.

Mr. GRAY. Did you promulgate the news of your close association with Mr. Ryan in Anaconda?

Mr. MITCHELL. Did I?

Mr. GRAY. Did your sales organization—or don't you know anything about that?

Mr. MITCHELL. I don't know anything about that.

Mr. GRAY. Will you tell me why, if you know, Mr. Mitchell, on October 1, you sent—

Senator FLETCHER. While he is looking that up, did your sales organization, Mr. Mitchell, undertake to make or create or build up a market in the stock exchange for this stock?

Mr. MITCHELL. No; there was an active market all the time. Anaconda has always been an active stock.

Mr. GRAY. If you can explain tell me, if you please, why, on October 1, you sent out this wire:

We are taking Anaconda off the list for the present, because we have no stock on hand, and we are inclined to use this opportunity to accumulate stock at the present level rather than distribute it?

Mr. MITCHELL. Because that was the truth.

Mr. GRAY. Did you not have 73,000 shares on hand at that time, and did you not stop your selling organization because of the fact that the price was—

Mr. MITCHELL (interposing). No, sir. That stock you saw in the account because it had not been delivered, but it had all been sold.

Mr. GRAY. That is all I will ask him, Mr. Chairman.

The CHAIRMAN. Now, then, it is getting late, and I will say to the members of the committee, might it not be well to close for the day and meet a while tomorrow forenoon and finish this up?

Mr. GRAY. I do not think that I will need Mr. Baker, unless there is something in connection with Mr. Ryan's testimony that he can not answer, and that I may have to have Mr. Baker to answer.

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow morning in this room.

(Whereupon, at 4:45 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m., of the next day, Saturday, June 4, 1932.)



# STOCK EXCHANGE PRACTICES

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## HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

### S. Res. 84

A RESOLUTION TO THOROUGHLY INVESTIGATE PRACTICES  
OF STOCK EXCHANGES WITH RESPECT TO THE  
BUYING AND SELLING AND THE BORROWING  
AND LENDING OF LISTED SECURITIES  
THE VALUES OF SUCH SECURITIES  
AND THE EFFECTS OF SUCH  
PRACTICES

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#### PART 3

JUNE 4, 10, 11, 14, 16, 17, 18, AND 23, 1932

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